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Print Edition April 21st 2001

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America's Federal Reserve was right to cut interest rates, because it is right to fear that a recession is probable ... More on this week's lead article

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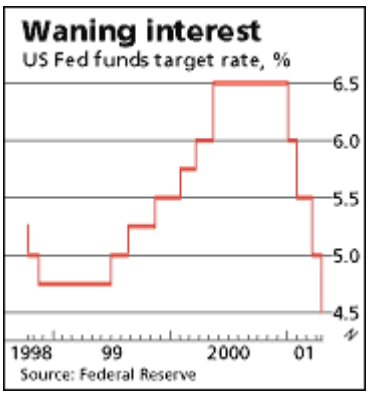
Business this week

Apr 19th 2001
From The Economist print edition

The Fed cuts again

America's Federal Reserve cut **interest rates** between scheduled meetings by half a percentage point to 4.5%. Stockmarkets, already climbing, went up faster. The Fed was responding to mixed signals from the economy. The Conference Board's index of leading indicators fell 0.3% in March and the University of Michigan's consumer-confidence index hit a seven-year low, suggesting that recession was likely. However, industrial production rose 0.4% in March after falling for five months.



See article: Greenspan's rate cut

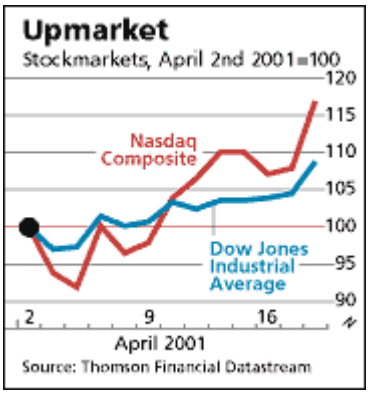
China announced that its economy was again growing at the blistering pace it enjoyed in the mid 1990s. GDP grew by 8.1% year-on-year in the first quarter; heavy government spending offset a fall in the trade surplus to $4.8 billion, and consumer prices rose only slowly.

The yen rose against the dollar as **Japan** denied that it was attempting to bolster its economy with a weak currency. The yen's rise was aided by comments from Masaru Hayami, governor of the Bank of Japan, who hinted that interest rates would remain, in effect, at zero by saying that deflation was likely to persist.

Thaksin Shinawatra, **Thailand**'s prime minister, made a personal appearance at a cave rumoured to contain a fortune vast enough to pay off Thailand's national debt. A search for the treasure, reputedly abandoned by Japan's army during the second world war, proved fruitless. An embarrassed Mr Thaksin admitted that his "batteries" may have been "charged incorrectly".

Rallying point

The **Nasdaq** continued to soar, in spite of a run of dire results from high-technology companies. After rising by 14%, the second-highest percentage increase ever, in the week before Easter, America's high-tech stockmarket index went above 2,000 points for the first time since March 13th.



See article: Time to buy?

Cisco, a network-equipment firm that makes the "pipes" for the Internet—and so was assumed to be immune from the technology downturn—issued a profits warning and said that it would shed 8,500 employees. It also plans to write off $2.5 billion in inventory after an expected 30% fall in first-quarter sales. John Chambers, Cisco's boss, claimed that this was "the fastest any industry of our size has decelerated".

See article: Tech firms and the downturn

Philips Electronics, Europe's largest electronics maker, said that profits in the first quarter would be lower than expected, blaming falling sales of consumer electronics and mobile phones. The Dutch giant said that it would dispense with 7,000 employees, 3% of the total.

Hewlett-Packard, an American computer manufacturer, said that profits would not match expectations and that it would get rid of 3,000 employees. It blamed a worldwide drop in IT spending.

Shares in **Intel** jumped after it revealed that net profits in the first quarter were $485m, down 82% compared with a year earlier. Recent gloomy warnings from the world's biggest chip maker had depressed expectations to a level so low that the market responded with relief.

The future looked bleak for **PSINet**, an American Internet service provider. It announced losses for the past year of $5 billion compared with $433m the year before, despite a near doubling of revenues to $996m. It had earlier reported that it was close to running out of cash.

Amid gloom, glimmers of light. **IBM**'s first-quarter net profits rose by 15%, thanks to strong growth in its services. And **Apple Computer** also bucked the trend, thanks to buoyant demand for its new lap-top computer. It returned to profit in its second quarter.

See article: Tech firms and the downturn

Cheer at **AOL Time Warner** suggests marriage of old and new may work. The world's biggest media company said that earnings before interest, tax, depreciation and amortisation were 20% up in the first quarter as against the year before (assuming completion of the merger in January 2000). Revenues were up 9% to $9.1 billion. The company said that online and cable-television subscriptions had grown strongly.

Banks of America

Some of America's leading banks reckon things are not as bad as they might have been. **Citigroup**, **Bank of America** and **J.P. Morgan Chase** said first-quarter profits were down, but not by as much as Wall Street people had feared. **Merrill Lynch**, an American stockbroker, said that net income was down 21% to $874m in the first quarter as the stockmarket slump had cut commissions. **Charles Schwab**, a brokerage with the added burden of a significant online presence, said that net income was down 68% to $97m.

Continental drift

Continental Airlines said net profits were a mere $9m in the first quarter, down 36% compared with a year earlier. The airline pointed the finger at a drop in business passengers as companies cut travel spending in America's flagging economy.

Boeing, which had previously announced that it would drop plans to compete with **Airbus Industrie** in the super-large jet market and instead build a super-fast airliner, said that it plans to build an enhanced longer-range 424-seat version of its 747 jumbo to compete against the European consortium's 550-seat A380.

Britain's **GKN** and Australia's **Brambles Industries** announced the long-awaited $9.9 billion merger of their industrial-services arms.

General Motors announced net profits of $225m in the first quarter, 88% down on a year earlier, narrowly beating Wall Street's expectations.

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The world this week

Apr 19th 2001
From The Economist print edition

In and out of Gaza

EPA

Violence intensified between Israelis and Palestinians after Israel twice made raids into the **Gaza strip** in response to terrorist attacks. America and other countries criticised Israel's actions as excessive and disproportionate.

See article: In Gaza, positions harden

Iran fired 56 missiles at camps run by an Iranian exile group in **Iraq**, according to the Iraqi government.

President Robert Mugabe of **Zimbabwe** ended months of speculation by saying that he would seek re-election in next year's presidential vote.

A group of 39 pharmaceutical companies dropped a court case against South Africa's government over the provision of generic **drugs to fight AIDS**.

See article: Drug companies in the dock

Joseph Kabila, the new president of **Congo**, ousted several allies of his predecessor and father, Laurent Kabila, raising hopes for peace in the country. But Rwandan-backed rebels blocked the arrival of UN monitors in Kisangani, in the east of Congo.

A much-hyped story of a ship carrying **child slaves** off the coast of west Africa proved to be untrue.

See article: Child slavery in west Africa

Currency affairs

Domingo Cavallo, **Argentina**'s economy minister, said he would like to see the peso, at present pegged at par to the dollar, linked instead to a currency basket, made up half of dollars and half of euros—once the euro has reached par with the dollar. Investors looked baffled, but then seemed to accept that this was not a covert devaluation.

See article: Argentina jiggles its currency board

More trouble in **Colombia**. The country's ombudsman accused right-wing paramilitaries of "barbarism" after they had killed 40 villagers, slicing one woman open with a chainsaw. Elsewhere, guerrillas from the FARC killed 28 civilians whom they accused of sympathising with the paramilitaries. And the ELN, a smaller guerrilla group, kidnapped about 100 employees working for Occidental, an American oil company, though it quickly released most of them.

See article: Drugs, war and democracy

George Bush, speaking on the eve of a 34-country **Summit of the Americas** in Quebec pledged to seek authority from Congress to negotiate a proposed free-trade area of the Americas.

See article: Breaking barriers in the Americas

In a referendum in **Mississippi**, voters decided to retain the state flag, which includes the Confederate

battle cross. The state may now face economic boycotts by blacks.

See article: Mississippi votes for its flag

Cincinnati suffered four days of **racial rioting** after the fatal shooting by police of a young unarmed black man they were attempting to arrest.

AP

See article: Cincinnati's riots

The Supreme Court ruled that a famous Z-shaped congressional district in **North Carolina** was not unconstitutional as it had been gerrymandered for political rather than racial reasons.

Faulty flying

China rejected an American claim that a Chinese fighter had been responsible for the collision that damaged an **American spy plane** and forced it to land on Hainan Island. In talks with Chinese officials in Beijing, America asked for the aircraft's return.

See article: Carry on spying

Vietnam was reported to have replaced its Communist party leader with Nong Duc Manh, regarded as a reformer.

See article: Vietnam changes leaders

Indonesia's president, Abdurahman Wahid, warned that his supporters may riot if parliament impeaches him at the end of the month.

In the latest of a series of accidents in **Japan**'s nuclear-power plants, fire broke out in a reactor in Shimane prefecture. Officials said the fire was quickly extinguished and there were no radiation leaks. Japan's nuclear reactors supply a third of the country's electricity needs.

Sixteen Indian soldiers and two from Bangladesh were killed in a border skirmish over a disputed area on the fringe of India's **Meghalaya** state.

A strike in Pakistan's southern province of **Sindh**, called to protest against the government's failure to deal with a shortage of water, ended in violence, with one person killed in Karachi, vehicles set on fire and more than 200 arrests.

Japan had some good news at last when it was announced that **Princess Masako** was pregnant. Shares of companies that make baby clothes rose in the hope that other Japanese couples would follow the royal example.

Gas-powered TV

Russia's only independent national television station, NTV, which had been owned by Vladimir Gusinsky's Media-Most group, was taken over by Gazprom, **Russia**'s monopoly gas company whose largest shareholder is the state. Two of Media-Most's leading publications were promptly closed down. Meanwhile a Spanish court refused to extradite Mr Gusinsky back to Russia, where he is accused of fraud.

See article: Russia's muzzled media

Thirteen hunger-striking **Turkish** prisoners protesting against their conditions died; more are close to death.

A trial began in **Belgium** of four Rwandans, including two Roman Catholic nuns, accused of complicity in Rwanda's genocide in 1994, when 800,000 people were killed.

Dragan Obrenovic, a **Bosnian Serb** commander accused of helping to carry out the massacre of 5,000 people in Srebrenica in 1995, was arrested in Bosnia and sent to the international war-crimes court in The Hague.

In a relaxed but less-than-sparkling performance, **France**'s prime minister, Lionel Jospin, appeared on television to attack profitable companies that lay off workers and to defend his record in government.

See article: The French prime minister's troubles

Reuters

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Greenspan to the rescue

Apr 19th 2001
From The Economist print edition

Get article background

AMONG commentators and columnists, his reputation has plunged. Having been widely praised, even more or less canonised, as an astonishingly skilful and perceptive central banker, Alan Greenspan has become widely blamed for the pause in America's economic miracle that has taken hold in the past four months, and therefore for the shadow that is hanging over other countries around the globe. His touch had deserted him, he had left interest rates too high for too long. The "Greenspan put"—the idea that share prices would not fall far, because the Federal Reserve's chairman would cut rates to rescue them—was in tatters. But not, it seems, where it really mattered: in the stockmarket itself.

The surprise cut in American interest rates by half a point on April 18th—the second cut of the year to be made between meetings of the Fed's policy-making committee, and the fourth half-point cut in all—sent markets soaring all over the world, even though they had already had a pretty good run for several days. This is despite the fact that the Fed itself, when making its cut, gave warning that the risks to the American economy remain on the downside; and the fact that to make a cut between meetings is itself a rather panicky act, the sign of a central bank worried that conditions might be deteriorating rapidly. Evidently, the idea of the Greenspan put, and the idea that the Fed can indeed avert recession, both still exert a powerful hold. It is salutary to be reminded that commentators and analysts, even when employed by investment banks, do not speak for the market itself.

The message from Cisco

What will matter now is whether two other groups still believe in Saint Alan the Saviour: American consumers, and the investment committees of companies operating in the United States. Given their low rates of savings, if consumers become nervous about their jobs and their futures, demand could drop sharply. Surveys of consumer confidence have recently shown increasing amounts of nervousness, but measures of spending have so far dipped by less than those surveys would imply (see article). The leading role in America's slowdown has been played by business investment—as has been shown clearly in the earnings being reported or forecast by makers of high-tech kit and software.

As the season when most big American companies announce their results reaches a crescendo, the days seem infinitely distant when quarterly profits stormed up by 20% from one year to the next. Now, a majority of big firms find that profits are down, and will decline further. Not all the sufferers are high-technology firms—Citigroup, Bank of America and Continental Airlines all opened the week with announcements of large falls in profitability. But it is the darlings of last year—companies such as Intel, Texas Instruments, Siebel in America; Philips, Ericsson and Marconi in Europe—that have led the rout.

And, of course, Cisco Systems, maker of much of the valuable equipment that powers the Internet. Its revenue is slumping, it revealed on April 16th, and it is laying off a swathe of employees. From a high of over $70 in March 2000, its stock now hovers around $17. What has gone wrong? In Cisco's case, the immediate problem is plain. Having lost sales last year by under-stocking, it began to build inventory just as demand turned down. In the first quarter of this year its inventories were almost 40% of sales. For all its much-vaunted "virtual close", giving the company a day-by-day read-out of its financial position, Cisco has been thwacked by the same collapse in investment spending that has taken so many high-tech companies by surprise. Fuelled with what was, in effect, free cash; prodded by Internet-hyped talk of landgrabs; lured by the promise of infinitely expanding markets: many normally temperate companies went on a two-year technology-investment binge which has left them with a horrid hangover. It may well be a couple of years before most of them can bear to touch the stuff again.

We will probably never know quite what it was that persuaded Mr Greenspan again to suggest a surprise interest-rate cut, but that news that Cisco was seeing its order books melt away may well have been influential, especially as other firms are also reporting similar, if less dramatic, problems. But can an interest-rate cut make a decisive difference? Not, most probably, to the question of whether America will have very slow growth this year, or even a recession. Cuts in the cost of money take months to have much of an effect on demand. What he may hope is that the effect on companies' investment decisions could be faster, as their cost of borrowing drops and as they then reduce the hurdle rates they impose as a test for new projects and equipment purchases. That, together with a boost to consumer confidence, could at least ease the pain.

That is why, whatever the time lag, if Mr Greenspan really does fear that a recession is on the way, then he is right to cut rates. The continued strength of the dollar has made that decision easier for him, by keeping import prices low and hence helping to restrain inflation. That strength has been painful for those countries whose own currencies, and hence interest rates, are tied to the dollar, most notably crisis-prone Argentina whose new finance minister, Domingo Cavallo, has been springing his own surprises on the markets (see article).

There, as elsewhere around the globe, all eyes are on the United States. This exaggerates America's importance: its trade plays a decisive role only for a few other countries (such as Mexico), and as it is a capital importer, a downturn there ought to release savings for others to tap. Western Europe, including Britain, should prove robust enough to withstand an American recession, even though Europe's growth rate is hardly stellar. But in Japan and in much of East Asia things are more fragile, with Japan probably already back in a recession of its own. For them, as for America, Mr Greenspan is right to say that the risks remain on the downside.

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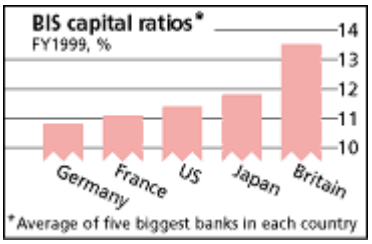
Don’t bank on Brussels

Apr 19th 2001
From The Economist print edition

Europe is wrong to try to apply new international rules on bank capital in a uniform way



THE European Union’s finance ministers and central bankers meet in Stockholm on April 21st to discuss, among other things, financial crises and how to prevent them. They would do well to scotch proposals to reform the supervision of European financial firms. Not only are these proposals complex, inappropriate and untested; they might even raise the likelihood of the crises they are meant to prevent.

The proposals are based on the work of the Basle committee on banking supervision, which represents bank supervisors in the big industrial countries, and has spent several years designing a new framework to set minimum capital standards for internationally active banks. It plans to use the banks’ own risk-measurement techniques to set adequate levels of regulatory capital. All well and good: these are sophisticated banks which know how to calculate the odds on risk and reward, and this is a clever way for regulators to monitor them. But there is no need to extend the provisions right across Europe’s financial institutions.

For one thing, it will simply take too long. There is a pile of work to be done, calibrating results, to make the rules workable. While that is under way, it is dangerous to translate the Basle framework (the new version is called Basle 2) into European law in the form of a new capital-adequacy directive (called CAD 3). The last time, a decade ago, that international supervisors looked at bank capital, it took three years to put into law in Europe changes that American regulators applied in three months. In Europe a new directive has go through the European Commission, the European Parliament and the Council of Ministers. Then separate legislation has to be passed in each EU country.

The timetable has been set by the Basle committee. Basle 2 (which sets minimum standards of capital adequacy, but is not legally binding) is meant to apply from January 2004. If Europe’s new capital-adequacy directive is to be law in all EU countries by 2004, it must be drafted before that, in October this year. The Americans and Japanese have decently said that they will not apply the new capital regime, which rewards sophisticated banks, before then. After that deadline, though, the gloves are off. British regulators are working frantically on ways to apply bits of Basle 2 within existing EU law. That shows how little faith they have in Brussels lawmakers.

What is more, the rules in Europe must cover all banks, securities houses and investment firms too. Rules designed to improve the safety of a handful of the world’s most active banks cannot possibly fit every little investment firm as well. The costs of detailed risk analysis and reporting could sink a small savings bank, or render uneconomic its lending to small businesses. A sudden new capital charge could wipe out some British fund managers. This is a question which Eurocrats have little time to consider.

A light touch

But what is the alternative? Simplicity and a light touch are the keys to good financial regulation. The new capital-adequacy directive promises numbing complexity and inconsistent application in 15 separate countries. American and British supervisors are used to avoiding red tape. They coerce their banks with a nod and a wink, but then they have a special cat-and-mouse relationship with the biggest banks whose health safeguards the financial system. Continental regulators, on the other hand, are understaffed and unsophisticated—even the French and German ones. Most of their charges need simple, mechanical rules to follow. A wider European Union that in future takes in Poland, Hungary and the Czech Republic will need even simpler, catch-all rules.

The first priority is to develop a capital regime for the big, internationally active banks in Europe. Once the principles are tried and tested the European Commission can take all the time it wants to craft a new directive. For now, it would be safer to do nothing.

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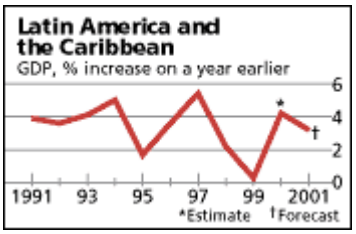
Breaking barriers in the Americas

Apr 19th 2001
From The Economist print edition

The Americas would benefit from freer trade, more political co-operation and a new realism about drugs. But they may not get them



IF THE average American, North, South or Central, gathers any impression at all from this weekend's Summit of the Americas, it is likely to be of a group of politicians holed up in the old city of Quebec, hiding from masses of anti-globalisation protesters kept out by a purpose-built fence.

That is a pity. Some good could come of the gathering, which brings together the heads of government of the United States and Canada and 32 countries in Latin America and the Caribbean—all except Cuba's Fidel Castro, who is not invited. In principle, one benefit could be the Free-Trade Area of the Americas (FTAA), whose establishment in 2006 the summiteers are due to endorse, to the horror of the demonstrators.

The summit, the third of its kind since 1994, is recognition that the people of the Americas are in some ways drawing together. Nowadays, the elected leaders of Latin America look to the United States as an export market but also as a source of support for democracy in the region. George Bush is well aware of that. It was his father who first launched the idea of an FTAA, a decade ago. The visit to Quebec is only the new president's second trip abroad since he took office—and his first was to President Vicente Fox of Mexico.

But there are problems as well as possibilities. The brutal disproportion of power between the United States and its southern neighbours means that inter-American relations will never be tension-free. Indeed, they may grow more difficult. In many Latin American countries, a decade of liberal economic reform has produced disappointing results.

There are two immediate concerns. One is the economic downturn in the United States, which will be especially painful for Canada, Mexico and the Caribbean. The financial effects could slow growth in Brazil. None of this is a pleasant prospect for the many Latin Americans who have recently gone through slumps (some countries in 1995; others in 1998-99; some, such as still-depressed Argentina, on both occasions). Since the region's social safety-nets are still full of holes, another recession might strain political harmony.

The second big worry is Colombia, racked by increasingly bloody conflicts involving left-wing guerrillas and right-wing paramilitaries, both financed by drugs (see our survey in this issue). Last year, Bill Clinton approved $1.3 billion in aid to the Colombian government, much of which is for fighting drugs and, in practice, guerrillas. The aid is controversial. Neighbours fear it will merely speed the flight of the drug industry, and refugees from violence, to their countries. Human-rights groups point to evidence of collusion between army officers, though not top commanders, and the paramilitaries.

The summiteers could help. The United States would be wise to reshape its aid programme, to take more account of the paramilitary threat and of the need to strengthen the state. Latin Americans should be less grudging in their diplomatic support for Colombia's democratic government, and put more pressure on the guerrillas to give up their violence.

There is a wider lesson for the United States. On the one hand it insists on prohibiting cocaine, thereby increasing its price. On the other, it is unable to curb significantly its citizens' demand for the drug. The result is to undermine democracy, human rights and the environment in much of Latin America. A radical rethink of drug policy is long overdue—and one that goes beyond the issue of whether the United States should continue its hypocritical ritual of "certifying" other countries' anti-drug efforts.

Who will fight for free trade?

But the signal that most Latin American leaders want from Mr Bush in Quebec is that he will fight for free trade. That means obtaining from the United States Congress the fast-track authority (or “trade-promotion” in the Bushite lexicon) required to clinch trade deals. For the past seven years, talks about an FTAA have moved quietly forward, even though President Clinton failed to obtain such authority. But now it is needed, if the talks are to be completed by 2005 as planned.

Getting Congress’s support will not be easy, especially if recession bites. Is the FTAA worth fighting for? Some free-traders worry that it could become a defensive American fortress, an alternative to a new round of global liberalisation through the World Trade Organisation. On the other hand, many Brazilians worry that the United States will refuse to dismantle the farm subsidies and anti-dumping duties that hamper many of their exports (see article).

Both of these are real worries, but they could be dealt with in the negotiations. Certainly, an FTAA is not the only way, nor necessarily the best way, to liberalise trade in the Americas. But it looks like the most feasible way. And the benefits from free trade and investment would be considerable—as Mexico knows. Thanks in large part to the North American Free-Trade Agreement, Mexico’s economy has been roaring.

By contrast, Brazil and the other Mercosur countries remain relatively protectionist. They could gain most from an FTAA—especially if it pushed Europe to make matching concessions. But only now is Brazil starting a public debate on its trade policy. The Americas have moved a long way towards more co-operative relations. But a trade agreement is far from inevitable. It depends on whether Mr Bush and his Latin American colleagues are prepared to face down the demonstrators and win over their voters to its merits.

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Carry on spying

Apr 19th 2001
From The Economist print edition

American spy flights near China should continue, until the Chinese have shown there is no need to spy on them

THE immediate crisis caused by the collision between an American spy plane and a Chinese fighter on April 1st may have ended with the safe return of the American crew, but the potential for another dispute remains very much alive. The American negotiators in Beijing this week were well aware of that. But America wants its plane back, and the Chinese have declined to return it any time soon. More contentiously, the Chinese have insisted that the United States should end its surveillance flights off their coast through what even they admit is international airspace. The Americans have refused. What will China do next? If it is sensible, it will give the American planes a wide berth, keeping an eye on them no doubt, but from a safe distance. If America is sensible, it will avoid inflaming the situation, and increasing the risk of accidents, by sending along fighter escorts. Neither tactic can be taken for granted.

The hard truth is that America spies on China because it needs to be spied on. By its own repeated admission, China poses a direct threat to Taiwan, which it has always asserted it has the “right” to invade. China already has some 300 ballistic missiles aimed at the island, and is adding to them at the rate of perhaps 50 a year. In 1996, it lobbed a few in the direction of Taiwan’s two main ports. It has bought Sovremenny-class destroyers from the Russians, along with Kilo-class submarines, and SU-27 and SU-30 fighters. Its most recent budget calls for an increase of 18% in defence spending.

That build-up has to be seen not just in the context of Taiwan, but more widely in that of a region now bristling with weapons and the opportunity for accidental or deliberate conflict. China has claimed sovereignty over all of the South China Sea, and the Spratly and Paracel islands within it. Geography dictates that a large share of the world’s trade passes through those waters and, though China has in the past two years shown greater willingness to discuss its claim, the issue remains unresolved. Every country that uses international sea lanes has an interest in seeing these waters remain open and unthreatened. If America, the only country ready and able to act as guardian, is to perform the task, it needs the sort of information that can be gathered only by aerial surveillance.

Nor is it entirely sophistical to argue that American guardianship may even be good for China. In the east Mediterranean, for example, American surveillance has on occasion helped to prevent military tensions between Turkey and Greece—two NATO allies—from leading to shooting. In East Asia, America has also played a useful role. As well as deterring an attack on Taiwan, it has acted as a brake on Taiwanese independence-seeking, by suggesting that Taiwan could not count on its help if a bid to make an unambiguous break were to lead to war. Doubtless, America’s intelligence network would spot, and forestall, any provocative military moves by the Taiwanese. And with China, where the balance of power between army and civilians remains worryingly opaque, there is an additional consideration. The fact that China’s military men realise that America knows exactly what they are up to—and can pass that information back to the political leadership—acts to counter any thoughts of freelancing.

But if spying makes sense, need America be so provocative about it? Satellites can certainly do a lot, but they suffer from limitations. Low-orbit spy satellites pass close to any given spot only two or three times a day, and briefly. A plane can be put up at short notice, and its crew can home in for hours on whatever they want to look at. Besides, surveillance flights, however unwelcome, make an important point: that international airspace is just that.

Reach out, but don’t touch

What is needed is a set of rules for the airways. China and America achieved one for the seas in 1998, after a confrontation between one of its aircraft carriers and a Chinese submarine in 1994. During the cold war, Russian spy planes routinely, and legally, flew in the airspace above NATO countries’ 200-mile economic zones, staying outside their 12-mile territorial limits. Cuba still does this to the United States. Fighters were routinely dispatched to intercept them. But under the international system that evolved,

they were careful to stay at least 300 feet (90 metres) from the object of their curiosity, and in full view of it. Had China observed this rule, the collision would not have happened. One day, there may be no need for any spy flights at all. But the stakes are too high, and China's commitment to the peaceful settlement of disputes too uncertain, for that day to be imminent.

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In and out of Gaza

Apr 19th 2001
From The Economist print edition

There is no military solution in the Middle East. And no obvious diplomatic one, either

Reuters

ARIEL SHARON, Israeli warrior, did a passable imitation this week of the Grand Old Duke of York. Having marched his soldiers back into a part of the Gaza strip that Israel had ceded to the Palestinians under the Oslo peace accords, he seemed to march them out again the minute the Bush administration slapped his wrist. In a rare public scolding, Colin Powell, America's secretary of state, described Mr Sharon's Gaza incursion as an "excessive and disproportionate" response to the Palestinian mortar attacks that had provoked it. Mr Powell called on both sides to honour the undertakings each had made in the Oslo agreements. "There can be no military solution to this conflict," he said.

Really? It would be nice if Mr Powell were right. The awkwardness is that diplomacy has not solved the problem either. The Oslo peace process has not just stopped in its tracks. It has gone off the rails, dropped off a cliff and fallen in a ditch, upside down. The Americans do not know how to rescue it, and wonder whether it is even worth trying until the warring parties have knocked some sense into one another.

Oslo was based on the principle of land for peace. But the Palestinians say that they have been given too little land, and the Israelis that they have been given no peace at all. It was designed to be gradual, so that each side would slowly gain confidence in the other. But since things fell apart at last July's Camp David summit, exactly the opposite has happened. In their latest *intifada*—armed, this time, unlike the uprising of the late 1980s—the Palestinians have turned the areas that Israel gave back under Oslo into bases from which to wage war. Hence the defeat of Labour in Israel's recent election and the replacement of Ehud Barak by the implacable Mr Sharon.

Things in the West Bank and Gaza would be bleak enough without the complication of Lebanon. But they are connected. Many Israelis think that Mr Barak damaged Israel's deterrent power when he pulled its army out of Lebanon a year ago. The spectacle of Israel being harried out of its southern Lebanese "security zone" by a few hundred Hizbullah guerrillas inspired the Palestinians. When the Palestinians launched their *intifada*, Hizbullah's example was in their minds. Hizbullah, meanwhile, has not just cheered from the sidelines but mounted raids across the border. Its ambush of an Israeli tank on April 15th (see article) was the first on Mr Sharon's watch. Mr Barak had long said that Israel would respond to such attacks by striking at Syria's army in Lebanon. Mr Sharon merely put Mr Barak's threat into action.

Mr Sharon would indeed be deluding himself if he thought he could solve all of Israel's problems by military means. But he is not mad to suppose that military power can help Israel to solve some of them, as it has in the past. In Lebanon, where returning all the land has earned Israel no peace, deterrence may be its only option. It may even work. Lebanese admiration for Hizbullah's military exploits is tempered by a desire to restore prosperity now that Israel has withdrawn. And the Syrians, remembering that Mr Sharon was the defence minister who in 1982 sent Israel's army all the way to Beirut, have reason to weigh their steps with care.

Limits and renewals

Military power is less likely to subdue the West Bank and Gaza. Palestinian escalation—such as a new practice of firing mortar bombs from Gaza into Israel proper—has been met with ever-heavier Israeli reprisals under Mr Sharon. Unlike the Lebanese, however, Yasser Arafat has little to gain by calling an end to his painful battle before he has anything to show for it. Nor, though, does he stand to gain much by persevering. Mr Sharon says he will make no concession "under fire", and has anyway withdrawn the extensive land-for-peace deal Mr Barak offered at Camp David. When one side tires, or both, talks will resume—but not from the point where they ended last July. Perhaps that really was the sort of

opportunity that comes along only once every 50 years or so.

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Russia's battered press

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From The Economist print edition

Vladimir Putin is doing himself and his country no favours by harassing the press. But he won't altogether subdue it

MEN with guns shoulder their way into the headquarters of Russia's last independent national television company at the dead of night; its founding chairman cowers on bail in a foreign land; the new boss is a monster gas company, the world's biggest, whose finances and ownership are murky and whose privileges depend on its niceness to the man in the Kremlin; journalists, and tycoons who own other bits of the press, change sides, stab each other in the back and are generally up for sale. The saga of NTV reflects badly not just on an authoritarian president, Vladimir Putin, but also on the practices of post-communist Russia. Yet it is unlikely to mark the end of Russia's fragile democracy or of its buffeted but half-free press. Mr Putin may do his worst to bend them to his will. But Russians' thirst for information, and the modern means for slaking it, are nowadays too strong to let the country slide all the way back to the tyrannical past.

Still, the takeover of NTV is bad news. It was, on the whole, a fine testimony to the energy and dash of a new generation of Russians gulping in the air of freedom after centuries of suffocation. Its flagship current-affairs programme on Sundays was the best in the country; its puppet show ridiculing Russia's masters was the funniest. It took up the cudgels of press freedom after the Soviet Union's collapse. It has occasionally tried to prick the country's conscience over Chechnya; it certainly punctured the president's amour-propre.

That Gazprom has been the vehicle for silencing Mr Putin's most influential critic gives the saga a particularly sharp sting. Gazprom, 38% of which is owned by the state, is actually itself a state within a state. It is thought to own a quarter of the world's gas, provides the people of the European Union with two-fifths of their supplies, and accounts for a good 8% of Russia's GDP. Its reserves may be worth $40 billion. But it treats its shareholders with contempt, pays little in taxes, hides its true wealth in a web of subsidiaries that siphon vast profits abroad and into sundry accounts, and refuses—say its aggrieved shareholders—to be properly audited.

The NTV row thus highlights two serious inadequacies in modern Russia. One is the lack of protection afforded to the press, whose freedom Mr Putin patently regards with disdain. It is unclear how much he minds about the second one—the uncertain rights of shareholders and the disreputable conduct of Russian companies, especially state-owned ones. Next month, the contract of Rem Vyakhirev, Gazprom's boss, is up for renewal. The board-room seat of its most independent-minded and shareholder-friendly director, Boris Fedorov, is already under threat. If Mr Putin is truly an economic reformer, however autocratic in politics, he should ensure that the one is sacked and the other saved.

To be continued

Yet the NTV debacle, sorry as it is, should not be blown out of proportion. The story is not entirely over (see article); journalists from the afflicted channel are migrating to other independent outlets; and other bits of Mr Gusinsky's empire, and some belonging to fellow tycoons, are still afloat. Moreover, neither NTV's owner, Vladimir Gusinsky, nor its top journalists were always angels of integrity. Especially in the approach to Boris Yeltsin's re-election to the presidency in 1996, they were as toadying as the rest of the press in giving their audience a brazenly partisan version of events. The new managers installed by Gazprom may be right when they claim that NTV's finances were anyway in disarray due to mismanagement, however much the Kremlin's squeeze against Mr Gusinsky may have made them worse.

Moreover, talk of a return to the Soviet past is exaggerated. The Internet, the mobile phone, the ability to travel, the desire of most Russians, especially the young, to be part of a wider world, mean that attempts to squelch the press can only stifle the purveyors of news and debate a bit. Gone are the days when a leader of the Soviet Union—Mikhail Gorbachev, no less—could take 18 days to let a disaster like

Chernobyl be publicly mentioned.

But the West can and should help Russia's media. Television stations and newspapers, especially those in the regions, badly need support. Journalists need training. America is right to boost its state-aided broadcasts, including those in the Chechen language. Most important, western leaders should keep letting Mr Putin know that the sort of behaviour dished out to NTV keeps his country well outside the club of civilised nations to which he apparently aspires to belong.

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Letters

Apr 19th 2001
From The Economist print edition

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Huddled masses

SIR—In calling for easier immigration to rich countries you blithely talk about the free movement of goods, as though there is such a thing ("Let the huddled masses in", March 31st). There is not, and that is why many desperate or talented citizens of poor countries see emigration as the only solution. Agriculture, textiles and clothing, the sorts of products that offer poor countries their best chance of development, are the ones that rich countries discriminate against most, with high tariff and non-tariff barriers. Lowering these trade barriers is more ethical than encouraging ambitious and energetic third-world citizens to leave behind their cultures and families to depend on remittances from overseas.

RONNIE HORESH
Wellington, New Zealand

SIR—You address the vital issue of migration with dangerous simplicity. You make no mention of the alarming population growth in the third world, which plays a leading role in driving emigration. With greater awareness and political will this pressure could be reduced. If not, emigration from poorer to richer countries is only a short-term palliative and may be counterproductive as it reduces incentives to deal with the population problem.

Nor do you address the population implications for the recipient states. America currently receives nearly 1m immigrants a year. Combined with natural increase, America's population will nearly double in the next 70 years. Population growth is a major contributor to environmental damage. Europe's problems are that it has greater cultural homogeneity and lacks recent experience of large-scale immigration.

Were current barriers eased, the potential level of emigration could be immense. One can legitimately question whether political and social systems in richer countries would suffer serious loss of cultural identity and social cohesion. I do not question that immigration has been a positive force in America but now there are no vast open lands for settling a rapidly expanding population.

CHARLES GRADER
Marblehead, Massachusetts

SIR—I am reminded of John Kenneth Galbraith's argument in favour of migration as the only effective response to world poverty. He claimed that it benefits not only migrants and the countries they go to, but also the countries they leave behind.

One comment grated. You state that "Australia already relies on foreign labour for a quarter of its workforce." Workers are not "foreign" if they are fully-fledged citizens of their adopted country. This is or has been an important principle in Australia's policy on multiculturalism. Philip Ruddock, the immigration minister, has taken a backward step by introducing a kind of second-class citizenship for some refugees. This only feeds people's prejudices.

Increased migration must be balanced by increased education for cross-cultural awareness to prevent "tissue rejection". Active management of multiculturalism is necessary to make it work and should be firmly based on values of acceptance and fairness to all.

LYN BRAY
Adelaide

SIR—I am surprised that you fail to mention Canada. It has a marvellously streamlined immigration process; the factors determining an individual's chances of obtaining Canadian residency are spelled out in clear-cut terms.

VAQAR QURESHI
San Francisco

America's saving

SIR—There is an obsession with America's "negative savings rate" ("Consumers to the rescue?", April 7th). Perhaps we need to clarify the definition of savings, but Americans are not frittering their money away. A majority of households hold a stake in America through accounts with stockbrokers or through employers' 401(K) plans.

The numbers speak for themselves. The narrow M1 measure of the money supply—which includes currency, and current and savings accounts—declined 0.7% in the past year. The broader M2 measure, which includes M1, money-market and mutual-fund accounts, soared over 10%. Investment in securities and the resulting consumption of technology by business has fuelled the productivity boom of the past decade. Consumers are saving, but they want more for their money. We should end the myth that America does not save. We take risks and invest. Is that so wrong?

JOSEPH KENNER
Port Chester, New York

Intelligence spending

SIR—I was surprised and disappointed to read your article on British intelligence ("Too many spooks?", March 31st). I am quoted as having "recently" estimated the total cost of Britain's intelligence gathering at £2.5 billion ($3.6 billion).The figure was used to support the argument that expenditure on Britain's intelligence effort is "rocketing" and that there is a need for increased financial accountability. I have never used such a figure. Nor would I agree that the intelligence agencies are not held properly to account, since I well know that the existing (and widely publicised) arrangements for ministerial, judicial, parliamentary and National Audit Office scrutiny of our intelligence and security services are searching and rigorous.

SIR GERALD WARNER
London

Editor's note: The article said that Sir Gerald had been quoted as having estimated the cost of Britain's intelligence gathering at £2.5 billion. The source was an academic study: "MI6, Fifty Years of Special Operations", by Stephen Dorril, published by Fourth Estate last year.

Power brokers

SIR—Your article on the mayoral election in Los Angeles contains an error ("Politics amid the palms", March 24th). You say that the city of Los Angeles experienced its first blackout. Not true. Los Angeles is served by the city-owned Department of Water and Power, which did not go down deregulation road. We have our own ample power supply, our rates are stable and there have been no blackouts.

DAVID FREEMAN
General manager, Department of Water and Power
Los Angeles

No escape

SIR—What a chilling cover. A man, turning blue and at risk of drowning, is chained and strait-jacketed on the seabed under the banner "Can the world escape recession?" (March 24th). In the same issue, Lexington is dismayed by shrill warnings of economic troubles, gravely stating that "in a world where information is so important, confidence is itself a valuable commodity, so it is vital that politicians do not

exaggerate just to score political points." But to sell newspapers? A different matter, one must suppose.

THOMAS POLICELLI
Cambridge, Massachusetts

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Economist.com SPECIAL

All in the familia

Apr 19th 2001 | SAO PAULO AND WASHINGTON, DC
From The Economist print edition

This weekend's summit in Quebec will concentrate on the creation of a Free-Trade Area of the Americas. The Bush administration is all for it; South America's biggest economy, Brazil, is not so sure

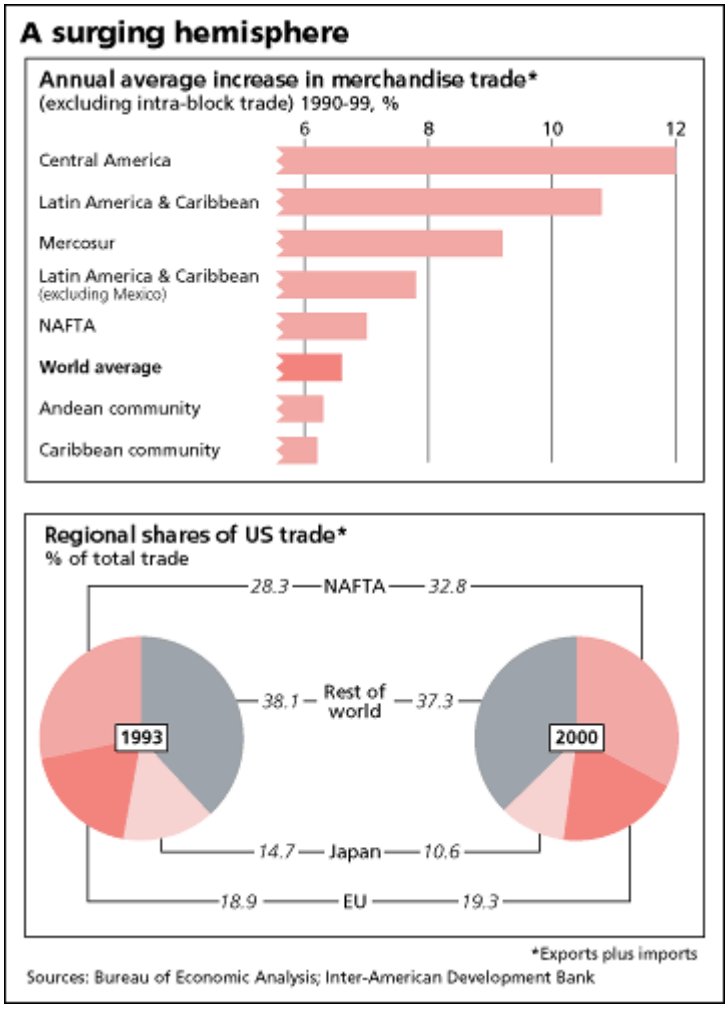
AT THEIR meeting last month to prepare for the 34-country summit of the Americas this weekend, President George Bush kept a promise to look a sceptical President Fernando Henrique Cardoso of Brazil in the eye and swear that the United States really wants free trade. Brazil, by far South America's largest economy, has so far shown little enthusiasm for talking about a Free-Trade Area of the Americas (FTAA). It is doubtful, not least, because it does not believe Mr Bush can overcome free trade's opponents in the United States; and because a watered-down or hobbled FTAA might be worse than no agreement at all.

Mr Bush shows every sign of being keen as mustard on free trade. His trade representative, Robert Zoellick, is even keener. Mr Bush wants to pursue free trade on three levels: bilateral deals with single trading partners, regional pacts such as the FTAA, and global negotiations in the World Trade Organisation (WTO). This makes for a lot of irons in the fire. Getting his wish, however, will depend on exactly the things Brazil is worried about: his capacity to stand up to domestic industries begging for protection, and his ability to get fast-track authority—now renamed Trade Promotion Authority, or TPA—from Congress. Getting that will depend on how persuasively he can sell his policies to Americans at large.

Mr Zoellick, who litters his speeches with quotes from his boss as though he were Chairman Mao, sees the FTAA as the key to regaining momentum for trade policy. He thinks Bill Clinton lost it by failing to obtain the renewal of fast-track power and by presiding over the meltdown in the global trade talks in Seattle in 1999. The FTAA is as good a place as any to get trade policy moving forward again—if, that is, the neighbours can be made to agree.

The draft agreement for the FTAA already exists; it was prepared at a meeting of trade ministers in Buenos Aires earlier this month, though it will not be made public until the summit is over. A framework similar to that of the North American Free-Trade Agreement (NAFTA) between the United States, Canada and Mexico would be extended southwards, with negotiations to finish by January 2005 and implementation to follow by the end of that year. The FTAA would open a free-trade umbrella over nearly 800m people who accounted for more than $11 trillion in GDP last year. If its effects proved to be anything like NAFTA's, the whole continent would be in for a trade boom.

It will be quite a challenge, however, to reach an agreement acceptable to all 34 countries. (Cuba is excluded at the United States' insistence and French Guiana, since it is officially part of France, is not taking part.) Historically, the continent's more far-flung countries have not made much effort to trade with each other, tending instead to do business with their former colonial masters in Europe. (The banana war, the most contentious result of that policy, was resolved last week; see article.) In the 1990s, economic liberalisation and the formation of regional trade blocks such as NAFTA and Mercosur (Brazil, Argentina, Uruguay and Paraguay) meant that trade within the continent grew faster than GDP and faster than world trade in general (see chart) but South America's markets are still less open than those of the Asian tigers.



Suspicions in Brazil

Until recently, Brazil was trying to get its South American neighbours to join it in foot-dragging over the FTAA, or at least to form a united front to take a tough line with the United States. But its strategy has flopped as its neighbours have become ever more enticed by the idea of improved access to the world's biggest consumer market. The United States has been dangling this prospect skilfully in front of the other countries. Chile's president, Ricardo Lagos, was invited to the White House this week to hear from Mr Bush that a bilateral trade deal between them could be signed as early as this year. Argentina and Uruguay have taken the bait, and have made it clear that any blockage in the FTAA talks would not stop them from doing some other sort of deal with the United States.

As a result, Brazil has come round to the view that, since everyone else wants the talks to go ahead, it might as well join in and seek the best deal it can. One of the most important signs of its change of attitude was the sacking, this month, of Samuel Pinheiro Guimaraes, the head of the foreign ministry's think-tank and a fierce critic of the FTAA. This week, Celso Lafer, the foreign minister, attacked the "ostrich mentality" of those in Brazil, such as his former subordinate, who oppose its participation in the talks. And he admitted, more frankly than any senior Brazilian figure has so far, that his country risks losing much of its existing trade if the rest of the Americas rushes to sign a deal without it.

Brazil's businesses have suddenly realised that the FTAA is now more than a remote hypothesis and that they ought to be preparing for it. The country's National Confederation of Industry (CNI) has just completed, though not yet published, its first studies of the impact Americas-wide free trade could have on Brazilian industry. Sandra Rios, an economist at the CNI, says there is not yet a consensus that the FTAA would be good for Brazil overall. But whereas, until recently, only those who feared freer trade were making their voices heard, industries that stand to gain are now speaking up in favour of the talks.

One such is the textile industry, which believes its exports of T-shirts and towels to the United States would be far greater if America lifted its import quotas. The Brazilian Textile Industry Association is so keen on the FTAA that it is calling for it to start sooner than 2006—much to the irritation of the Brazilian government, which successfully fought in Buenos Aires this month to stop the United States from bringing forward the date. Other areas where Brazil is highly competitive, and would thus benefit from

freer trade, are agriculture, especially beef and soyabeans, steel-making and ceramics.

Some Brazilian industries that fear being wiped out by North American competitors, such as chemicals and paper-making, have mostly themselves to blame. They have failed to merge and restructure to reach world-class competitiveness. They claim they cannot find affordable finance to do so, but Brazilian companies would find it much easier to attract investors if they undid their complicated holding structures and generally treated minority shareholders better. There is plenty of time to do all this by the FTAA's proposed starting date; just as there is plenty of time for the government to boost the export prospects of all Brazil's industries by pushing reforms of the country's burdensome tax system.

Those industries with most to fear from free trade, such as machinery and electronic goods, are precisely those that successive Brazilian governments have coddled with protectionist tariffs, arguing that this would give them breathing-space to grow big enough to take on foreign rivals. As a result, they have been under little pressure to seek world-class productivity, technology and marketing, and have not bothered. The failure of this strategy is a riposte to the arguments of Mr Guimaraes (the sacked diplomat) and the left-wing Workers' Party, who say that joining the FTAA would mean forgoing independent trade and industrial policies and thus being unable to build competitive industries.

Brazil's neighbours have become increasingly sceptical of such arguments. Argentina is abandoning Mercosur's common tariffs pact and abolishing import duties on machinery because it believes these have served only to prop up inefficient Brazilian firms while preventing Argentine industry from introducing new technology. Francisco Panizza, a Uruguayan political scientist, argues that pleas from Brazilian

industries for “time to adjust” are absurd, given that many such industries have been in existence for half a century or more.

Besides, says Heinz-Peter Elstrodt of McKinsey, a management consultancy, many of the Brazilian industries that are, overall, lagging behind include some firms that are close to world-class productivity, and others that are so far behind they may never catch up. The best firms should survive, even with new competition. The worst, unless they adapt, will die out. Brazil’s car industry is an example of this, with its newer, more efficient plants expected to drive out older, unproductive ones. But this process is beneficial, and is happening anyway. The FTAA would simply speed it up.

Protective instincts

Brazil’s greatest fear is that the United States is plotting to stop it from becoming a big exporter of high-value manufactured goods and to make it return to its historic role of churning out low-value commodities. This is not entirely paranoia. The United States currently applies a whole range of duties, quotas, price restraints and other measures to processed items from Brazil. Some of these will be politically difficult for Mr Bush to negotiate away.

In fact, of course, Mr Bush’s America is something less than a bastion of free trade. It gives subsidies to farmers (though these are generally much reduced from their levels of a decade ago) and has imposed “anti-dumping” measures to protect steel-makers. Only last month, the debilitated American steel industry begged for extra protection from foreign competition while it restructures and updates itself. Last week’s merger of NKK and Kawasaki Steel, two Japanese giants, will only enhance congressional pressure to enact emergency tariffs.

Even within NAFTA, American protectionism is by no means dead. With the expiration on March 31st of a five-year agreement on trade in softwood lumber between the United States and Canada, which amounts to roughly $10 billion a year, American producers have filed for anti-dumping measures against Canada’s government-supported exporters. Disputes on dairy products and sugar could also flare up if import volumes rise. To make matters worse, Canada is embroiled in a lawsuit, brought by its postal workers’ union and an anti-globalisation group, that threatens to invalidate NAFTA on the basis that it infringes Canada’s sovereignty.

The toughest obstacle to true free trade is public opinion, both in the United States and in its trading partners in the Americas. Radical opposition to globalisation at grassroots level continues to grab headlines; 20,000 demonstrators are expected in Quebec city this weekend. Non-governmental organisations in the United States still shriek about jobs lost to NAFTA, even though unemployment fell to its lowest levels in decades—well below the supposedly “natural” rate—during the life of the agreement. The gap in understanding has not narrowed noticeably since the protests in Seattle.

It is in this climate that Mr Bush and Mr Zoellick must try to extract TPA from Congress. This power would allow Mr Zoellick and his team (when he has finally got it in place) to negotiate trade deals in full and then present them to Congress for a vote. He has pointed enviously to similar powers vested in the European Union’s trade commissioner. The EU has signed 20 substantial pacts since 1990, and has 15 more on the way; over the same period the United States has ratified only two, with four more in the works. Although the United States has never shown a predilection for European-style agreements based on customs unions, the contrast is a stark one.

The fight for TPA, though, is likely to be long. Congress wants to attach provisions requiring Mr Zoellick to seek labour and environmental standards as part of trade agreements. These have featured in previous fast-track authorisations, but Mr Bush is dead-set against them. Developing countries also object to these standards, which they say could open avenues to protection against their exports. Cal Dooley, a Democrat in the House of Representatives who worked closely with Mr Zoellick’s predecessor, Charlene Barshefsky, thinks that TPA could become a reality in the next 18 months. But he also says that the current Congress is not ready to take any dramatic decisions to promote freer trade.

This week, Mr Zoellick began meeting business and non-governmental interest groups in an effort to start persuading American dissenters. He has promised to use the Internet to spread his message of free trade. The black and Latino media, representing groups who are traditionally wary of losing jobs to cheap foreign labour, are also likely to get visits from Mr Zoellick. Lastly, he promises that the president will address the country about the importance of trade in due time. As Mr Clinton found during the arguments over NAFTA in the early 1990s, it is not a particularly easy pitch to make.

Given these difficulties on the American side, Brazil still talks of the FTAA as merely one of several options. It argues that Mercosur's parallel talks on a free-trade deal with the European Union have at least as much potential to boost Brazil's trade. This is true, but the talks with the EU are at least as likely as the FTAA ones to founder on the issue of farm protection. As for its other option, a deepened and widened Mercosur, this seems a receding prospect: if the FTAA talks were to fail, the main priority for Brazil's current Mercosur partners, as well as potential members such as Chile and the Andean countries, would be to seek the best possible deal with the United States. The alternative would be to fortify a southern trade block that most feel, rightly or wrongly, has brought more benefits to Brazil than to them in the ten years it has been in existence.

The United States, too, has other options. Abandoning the warm and conciliatory (if often empty) rhetoric of the post-Seattle Clinton era, the new administration has adopted a cocky, take-it-or-leave-it attitude towards its trading partners. Messrs Bush and Zoellick hold the keys to the biggest market in the world, and they know it.

Mr Zoellick has repeatedly stated that the United States is interested in working with fast-moving traders, but will leave laggards by the side of the road. With respect to the FTAA, he says, "We will reward good performers, and while we want to bring on others in the region, we won't wait for ever."

The administration's multi-pronged trade policy fits well with this reluctance to curry favour with other countries. Its strategy might be as follows: if WTO negotiations are going too slowly, then concentrate on the FTAA; if the FTAA bogs down, sign bilateral deals with enthusiastic parties such as Chile. Mr Bush's trade policy echoes his overall approach to foreign affairs. Friendly neighbours are welcome; sceptics need not even knock. Brazil, the third-biggest economy in what Mr Bush likes to call "the hemispheric *familia*", will get some sort of trade deal with the United States; but full free trade can wait until Brazil really wants it.

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The kiss of life?

Apr 19th 2001
From The Economist print edition

Despite another half-point cut in interest rates this week, the risk of a recession of some sort is becoming clearer

FOR the fourth time in four months, America's Federal Reserve cut interest rates this week by half a point, taking the Fed funds rate to 4.5%. That the cut took place outside the normal schedule for meetings suggests that Alan Greenspan, the Fed's chairman, is becoming increasingly alarmed about the health of America's economy. Will this save the economy from recession?

If nothing else, Mr Greenspan's move suggests that he is siding with the views of ordinary Americans rather than with those of his fellow economists. Fewer than one in ten economists expect the economy to slip into recession this year. Yet two-thirds of households surveyed by the University of Michigan believe that the economy is already in recession.

It partly depends, of course, on what you mean by recession. First-quarter GDP figures, due out on April 27th, are still expected to show a small increase in output. The second quarter seems more likely to show a dip. However, even if America escapes an official recession, defined as two consecutive quarters of declining output, the sharp slowdown in growth—from an annual rate of more than 5% in the first half of 2000 to virtual stagnation in the first half of this year—will probably feel like a recession to most people.

Optimists take comfort from the fact that the average forecast for GDP growth this year is still 1.4%, according to *The Economist*'s latest poll of economists. But that is less robust than it sounds. There was rapid growth in 2000: output rose by an annualised 3% between the first quarter and the fourth quarter. Given this gap, even if output merely stays at the fourth-quarter level for all this year, the total annual figure would still be 0.8% above the total for 2000. Strip out this effect, pessimists point out, and a consensus forecast of 1.4% growth implies "true" growth this year of only 0.6%.

A year ago, economists were divided between those who expected a soft landing (the majority) and those who forecast a hard landing. Today few deny that America is suffering a hard landing. Instead, the split is now between those economists who predict a quick, V-shaped recovery, as the Fed's interest-rate cuts take effect, and those who expect a more prolonged period of sluggish growth, if not a full-blown recession.

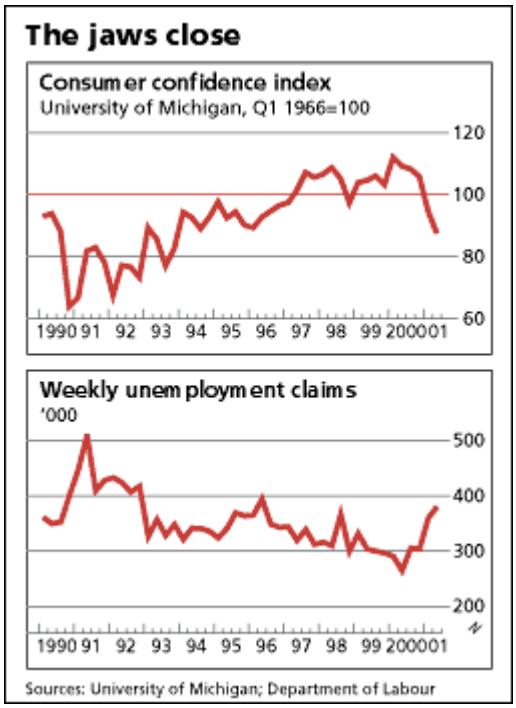
The first camp accepts that the United States has had a stockmarket bubble, but views this as a relatively isolated event with only a short-run effect on the wider economy: the bad news is now working its way through the system (and being dealt with by Mr Greenspan). The alternative view is that the stockmarket bubble also created an economic bubble as the surge in share prices and inflated expectations about future prospects encouraged economic excess in the shape of over-investment, over-borrowing and a collapse in savings. If so, it will take longer to unwind those excesses.

At first sight, this week's industrial production figures seemed to support the optimists: output rose by 0.4% in March after five months of decline. Even so, output still fell at an annual rate of 4.7% in the first quarter, the weakest performance since the 1990-91 recession. Moreover, the increase in March came entirely from a bounce in car production, after some fairly hefty cutbacks by Detroit during the winter; non-vehicle manufacturing output continued to fall.

Capacity utilisation in manufacturing industry also fell again in March, suggesting that firms will continue to slash capital spending. Sliding profits will put pressure on managers to make cuts. This week General Motors and Intel both announced first-quarter profits more than 80% down on a year earlier. Mickey Levy, an economist at Bank of America, expects business investment to slide by an annualised 10% in

the first half of this year, compared with 14% growth a year ago. The freeze in IT investment led Cisco, the Internet equipment giant, to say this week that it is laying off almost a fifth of its workforce (see article).

Until recently, only businesses were cutting back, but consumers may be starting to do so too. This may well have added to the Fed's fears. The University of Michigan's index of consumer confidence fell in April to its lowest level for more than seven years. Consumer confidence is now down to the same level as when America went into recession in 1990. Retail sales fell by 0.2% in March, after being flat in February.



This is hardly surprising, given the drop in share prices over the past year and rising lay-offs. Employment numbers have been bouncing all over the place; but there has been a more detectable trend in unemployment figures.

Weekly jobless claims rose to an average of more than 380,000 in the four weeks to April 7th, up from 265,000 a year earlier. America's unemployment rate has risen from 3.9% of its labour force in October to 4.3% in March. That sounds modest; yet, since 1945, whenever the jobless rate has risen by more than 0.3 percentage points (on a three-month average basis), the outcome has always been recession, with the jobless rate eventually rising by at least two percentage points.

A sharp rise in unemployment would be bad news for consumer spending, which is also being squeezed by shrinking wealth. Even after the recent bounce, the Wilshire 5000, the broadest stockmarket index, is still down by almost 25% from its peak last March, wiping more than $4 trillion off supposed household wealth.

The optimists point out that the October 1987 crash was followed by strong economic growth in 1988. But, argues Bill Dudley, an economist at Goldman Sachs, there was in fact a strong negative "wealth effect" in the fourth quarter of 1987 after the crash, when real consumer spending came to a virtual halt. Back then, this was offset by a strong improvement in America's trade thanks to a cheap dollar and buoyant growth abroad. That cushion is missing today: the dollar has been rising and growth in much of the rest of the world is faltering.

The wealth effect is also likely to be bigger this time because America's stockmarket is worth twice as much in relation to GDP as in 1987 and almost twice as many people own shares. After the October 1987 crash, share prices also rallied quite quickly; this time the fall has been more persistent. The drop in stockmarket wealth over the past year has been equivalent to more than 40% ofGDP. After the 1987 crash, the year-on-year loss was never greater than 15% of GDP.

Another concern is that households today are more vulnerable to a slump in wealth. As investors have spent some of their capital gains, the personal saving rate has slipped to minus 1.3% of disposable income. Just before the 1987 crash it was 7%.

In its statement, the Fed drew particular attention to falling profits and "the possible effects of earlier reductions in equity wealth on consumption". If the Fed's intention was to boost equity wealth, it certainly succeeded: on the day of the cut, the Dow Jones Industrial Average rose by 4% and the high-tech Nasdaq by 8%.

Next week's GDP numbers will also be cheered by the stockmarket if they confirm that the economy is still expanding. That would not necessarily imply that all those American households that think they are already in recession are wrong. The first estimates of GDP for the third quarter of 1990 showed that the economy was still growing. They were later revised down to reveal the first quarter of recession.

Mr Greenspan's move this week, coupled with his previous rate cuts, will certainly help to cushion the downturn. But there is a timing problem. The main impact of interest-rate changes usually takes nine to 12 months to boost demand. It may be too late for cuts in interest rates—let alone President Bush's planned cuts in taxes—to prevent recession altogether.

In the end, the real measure of Mr Greenspan's dash into the financial waters this week will be the job market, not the stockmarket. If unemployment steadies, then consumers should continue to spend, and any downturn should be brief. If unemployment climbs much higher, then consumers are likely to take fright. That could yet push America into a prolonged recession.

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Mississippi's flag

Not as simple as it looks

Apr 19th 2001 | JACKSON
From The Economist print edition

AP

Standard bearers

WHAT exactly is Mississippi's problem? That was the reaction of many outsiders to the referendum this week on the state's choice of its flag. Two-thirds of the voters preferred its current flag, which includes the controversial Confederate battle cross, to a new, more politically correct one with 20 blue stars, arranged in a rather European Union-style circle. America's poorest state is now the only one to keep that old, divisive emblem prominently on its flag.

The explanation is the usual southern brew of stubbornness, pride in a traduced past and, sometimes, prejudice. White Mississippians point out that a few black voters also opted for the old flag. They add that their forebears fought for the Confederacy for reasons other than retaining slavery. Unlike other southern states that adopted Confederate symbols only in the 1950s and 1960s to protest against desegregation, their flag dates back to 1894.

Against this, the cause of the referendum was a decision last May by the Mississippi Supreme Court that the state technically has no flag, because the 1894 design was left out when the state code was updated in 1906. And, ever since the civil-rights era, the Confederate flag has taken on a new, post-civil-war symbolism in the South: revered by conservative whites, detested by blacks.

The civil-rights era still lingers in southern memories. As Mississippians voted, jury selection was under way in Alabama for the trial of a white man accused in the 1963 bombing of Birmingham's Sixteenth Street Baptist Church, which killed four black girls.

Several civil-rights cases have recently been reopened, including some in Mississippi. But the Confederate flag remains the main lightning rod of controversy. Last year, the National Association for the Advancement of Coloured People (NAACP) led an economic boycott of South Carolina, bringing the eventual removal of a Confederate flag from the statehouse dome. Three months ago, Georgia's legislators opted to shrink a Confederate symbol that had dominated that state's flag since 1956. Throughout Alabama, cities and counties have stopped flying the state's flag, which bears a strong resemblance to the Confederate banner.

In most of these cases, pressure from white business to change was as great as that from black politicians. Indeed, Mississippi's vote can also be seen as a rearguard action in the battle between rural white traditionalists and the proponents of a New South. The latter advocate the spread of a liberal tolerance advanced—and sometimes achieved—in cosmopolitan places such as Atlanta, Charleston and Nashville.

Most of Mississippi has never pretended to embrace such a doctrine. The state tends to finish last in socio-economic polls and first in poverty lists. Dixie's governors often mutter "Thank God for Mississippi" when their own states hover just above (or just below) the Magnolia state on those lists. Mississippi does not shy away from the civil war. It still markets pilgrimages to plantations, collecting dollars from Yankees keen for a faint whiff of "Gone With the Wind."

On the other hand, the state has its new southerners. Business leaders and Ronnie Musgrove, the Democratic governor, supported the new 20-star flag. Mississippi recently landed a billion-dollar Nissan car plant, and talk bubbles of the state stealing the New Orleans Saints football team away from Louisiana.

The NAACP says that it will not give up the fight to rid the state of the 1894 flag. Corporate meetings and

political conventions scheduled for this year could be cancelled. The National Collegiate Athletic Association has even considered requests from civil-rights groups that it should not schedule post-season competitions in states that fly the Confederate battle flag on their Capitol grounds or include it in their state flag.

Supporters of the new flag in Mississippi have called for the legislature to take control (just as lawmakers did in Georgia), and order a new flag before more damage is done. Despite the referendum, the legal decision to fly or adopt a state flag still seems to rest with local elected politicians. Last year in Jackson officials decided against displaying the old flag in city chambers. Out in the country, though, old habits die hard. In Carrollton, a small town on the edge of the Delta, the 1864 Confederate flag—not the state flag—still sometimes flies at the courthouse, not to mention the verandas at many grand old homes.

In the end, Mississippi's vote seems to have been rooted in pride rather than prejudice. The fact that other states have caved in to impassioned protests from those who crudely link the Confederate flag to slavery seems to make many white Mississippians readier to proclaim what Georgia and South Carolina were afraid to say. They have their doubts about the New South. History will not be changed by putting an old flag in a closet, even if it has been sullied by white supremacists. Mississippi's flag remains one small piece of the complexity of America.

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Cincinnati’s riots

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AP

This week Cincinnati began to pick up the pieces after the worst rioting in the city since the death of Martin Luther King. On April 10th, violence broke out in black neighbourhoods in a delayed reaction to the fatal shooting three days earlier of Timothy Thomas, a 19-year-old black man. Mr Thomas, who was not armed, was shot to death while trying to escape from policemen who were attempting to arrest him for 14 outstanding warrants, all admittedly for fairly minor offences. Some 120 businesses were vandalised or damaged by fire and more than 800 people were arrested. After the introduction of a city-wide dusk-to-dawn curfew, the city’s mayor, Charlie Luken, eventually restored order. Now he has pledged to appoint a wide-ranging commission to explore race-related problems throughout the city. Meanwhile, the city council was called into session this week to consider changes in the leadership of the police department. Mr Thomas was the fourth black man killed by Cincinnati policemen since November and the 15th since 1995. No whites were killed over the same period. Last month, the American Civil Liberties Union and a black civil-rights group filed a federal lawsuit against the city of Cincinnati for allegedly failing to end 30 years of police harassment of blacks.

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Lexington

George Bush, big-government conservative

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From The Economist print edition

EVER since Barry Goldwater's populist rebellion, the Republican right has defined itself by its opposition to big government. Ronald Reagan famously said that government is part of the problem rather than part of the solution. The Gingrich revolutionaries set their sights not just on the Great Society but also the New Deal. For years the only debate on the right was whether government is a necessary evil or an unnecessary one.

There are growing signs that George Bush is a different kind of right-winger: a card-carrying conservative who nevertheless believes in active government. "Big-government conservatism is the animating principle of the Bush presidency", argues Marshall Wittman, one of the more acute political pundits. "It is a radical departure from the conservatism of the past 40 years."

At first glance, this might seem a little improbable. Isn't the centrepiece of Mr Bush's legislative agenda a $1.6 trillion tax cut? Doesn't his budget squeeze funding for such cherished government programmes as subsidised housing for the poor? Hasn't he just made a bonfire of a mass of environmental regulations concerning everything from carbon dioxide emissions to arsenic in drinking water?

All true. But Mr Bush argues (optimistically) that projected surpluses mean you can have both tax cuts and active government. His budget envisages a slowdown in the rate at which government grows rather than a reduction in its absolute size. Even his decision to ditch some of his predecessor's last-minute environmental regulations owed more to cost-benefit analysis than to ideology. Implementing Bill Clinton's standards to lower the amount of arsenic in drinking water would have cost $65m for every life saved.

As a candidate, Mr Bush resolutely refused to run against big government, campaigning instead on a programme of restoring faith in the nation's institutions. As president, he has championed the cause of "active but limited government". Government "has a role and an important role," he declared in his budget speech to Congress, in a nice counterpoint to Mr Clinton's declaration, in the same chamber, that "the era of big government is over."

Why has Mr Bush broken with his conservative forebears? Partly for personal reasons: as a governor, he was reared in the responsible executive branch of his party rather than the bomb-throwing congressional branch. And partly for political ones. The failure of the Gingrich revolution made many conservatives rethink their root-and-branch opposition to government, and the success of welfare reform has removed the most egregious example of government incompetence. The most compelling reason is much deeper, however. Mr Bush thinks that government can serve conservative ends as well as liberal ones.

The clearest example that Mr Bush has a different attitude to government from his predecessors is his approach to education. Messrs Reagan and Gingrich wanted to scrap the Department of Education. Mr Bush plans to increase its funding by 10% a year and give it broader responsibilities for monitoring the performance of the country's schools. He also plans to give the department responsibility for managing an expanded Head Start programme. But Mr Bush is even more ambitious in other areas of social policy. Indeed, he has a clear penchant for what might be called conservative social engineering.

Take the health of the family. Mr Bush wants to encourage family formation by doubling the child tax credit and removing the marriage penalty—or even introducing a marriage bonus. The president wants to sustain families by providing states with $500m next year alone to help keep children with their parents

or return them from foster care. And he wants to encourage responsible parenting by strengthening character education in the nation's schools, distributing money to voluntary groups that promote fatherhood and marriage education.

Or take the state of the inner cities. Mr Bush wants to give government money to faith-based organisations to help provide social services. This is normally depicted as replacing the existing social services. But it is also possible to see it as an extension of the role of government. In effect, Mr Bush is co-opting voluntary institutions to serve governmental ends. You don't get government money without having to meet government guidelines.

There is danger in this approach. Politically, Mr Bush runs the risk of opening fissures within the right. The libertarian wing of the Republican Party is already worried that conservative bossiness may be just as intolerable as liberal bossiness. More generally, he runs the risk of raising expectations that he cannot meet. Conservative social engineering may be no better at fixing social problems than liberal social engineering.

On the other hand, Mr Bush is undoubtedly right that revamping the government machine makes more sense than either trying to close it down or letting it run on its own momentum. There is little public support for scrapping more social programmes—however dysfunctional—and leaving the poor to sink or swim. And there is mounting support on both sides of the political divide for rethinking social programmes to put more emphasis on personal responsibility.

The collapse of the American family is a national tragedy: around 20m children don't live with their fathers, 1m babies a year are born to unwed mothers, 500,000 children are in foster care. This collapse is at the root of many social pathologies—a point first made clear by a Democrat, Patrick Moynihan. Mr Clinton frequently preached about the importance of personal character before the Lewinsky affair forced him to change the subject. One of Al Gore's campaign themes was the importance of fatherhood.

Few phrases have passed from the status of rallying cry to cliché more rapidly than "reinventing government". But Mr Bush is quietly implementing a programme that could reinvent government far more thoroughly than Mr Clinton's programme of cutting staff and introducing fancy management techniques. Whether it will be possible to transform a liberal institution into a conservative one is questionable. But the attempt to do so could yet provide a grand theme to the Bush presidency.

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A honruida for baseball

Apr 19th 2001 | SEATTLE
From The Economist print edition

THE day before the women kicked off in Washington, DC, America saw two other sporting firsts. Ichiro Suzuki stepped up to bat for the Seattle Mariners. Pitching against him, for the Anaheim Angels, was Shigetoshi Hasegawa. Two Japanese-born players had never faced each other before in the American major leagues. Mr Suzuki got a hit, but Mr Hasegawa won the game. The losing pitcher was Kazuhiro Sasaki, the first time that both the official winning and losing pitchers were Japanese.

AP

Suzuki drives

Japanese players—particularly pitchers—are not new to American baseball. Hideo Nomo, a pitcher now with the Boston Red Sox, joined the Los Angeles Dodgers in 1995. But this looks like something of a breakthrough season, with batters, such as Mr Suzuki, who joined the Mariners this year after a nine-year career with Japan's Orix Blue Wave, and Tsuyoshi Shinjo, of the New York Mets, coming to the fore.

The Mariners have had a Japanese connection ever since Hiroshi Yamauchi, president of Nintendo, a Japanese video-game firm, became the team's majority owner in 1992. That deal was nearly struck down by xenophobic owners of other teams, which may explain why the Mariners originally played down the link. Now, with Messrs Suzuki and Sasaki on board, there are no such quibbles. A portion of the team's website is in Japanese. Team hats and jerseys are big sellers in Japan. And lots of Japanese shell out $1,900 each for four-day visits to Seattle that include two baseball games.

One attraction of the Japanese players is that they recall the subtleties of an earlier era. Whereas other pitchers rely on pure power, Mr Sasaki' s signature pitch is a "split-fingered fastball" that appears to be heading straight for the middle of the plate like a normal fastball before diving into the ground. Batters, with a fraction of a second to decide where the ball is going, flail helplessly.

Japanese batters are subtle, too. Set beside muscle-bound hunks such as Mark McGwire, the home-run-smashing St Louis Cardinal, Messrs Shinjo and Suzuki look like waifs. They also have decidedly old-world eccentricities. Mr Shinjo bows after a big hit and makes a little crow-like hop (he says it helps him focus) before catching a ball. Mr Suzuki has dazzled Seattle fans not just with his batting but his *sang-froid*.

The impact of the new arrivals on Japanese baseball is less helpful. Almost 130 years after a teacher named Horace Wilson introduced baseball to Japan, the country is obsessed by the game. But Japanese games are being eclipsed by broadcasts from America. A *honruida* (home run) for American fans, but a *sanshin* (strike out) for the Japanese.

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Brownfield sites

Muck-spreaders

Apr 19th 2001 | CHICAGO
From The Economist print edition

A SIGN hanging in the booth for Mallory Properties advertises boldly: “We buy contaminated properties!” Several aisles over, Environmental Control Systems showcases its patented (and, to be frank, slightly disgusting) aerobic process for cleaning up solid-waste landfills. In the background, a lawyer offers passers-by rubber chilli peppers emblazoned with the firm’s logo and website address.

Welcome to the second annual National Deal-Flow Conference, a trade show in a Chicago hotel that brings together all the parties with a professional interest in cleaning up and redeveloping America’s hundreds of thousands of “environmentally impaired” properties, or brownfields. This mingling of buyers, sellers, government officials, engineers, machinery suppliers, demolition firms, insurers and, of course, lawyers is the most tangible evidence that the market is at last starting to clean up brownfields.

It has taken its time. Congress tried to push the problem of cleaning up the country’s most polluted industrial sites on to the private sector in 1980. The “Superfund” law imposed liability in such a way that property owners and even their banks could be held responsible for contamination caused decades earlier by somebody else. The result, according to Mark Johnson, the editor of *Brownfield News*, was that most owners resorted to “gate and lock technology”: they put a fence round their site and never touched it, “because you could not be sued unless you began doing something with it.”

Fear of liability brought brownfield transactions to a standstill, leaving states and municipalities saddled with abandoned industrial sites that would have been safer and more productive if put to some other use. With the federal government bogged down in Superfund litigation, the states began to design their own brownfield redevelopment programmes in co-operation with the Environmental Protection Agency (EPA). The effort cascaded in the 1990s, so that 47 states now have voluntary clean-up programmes in place. More than 20 states offer financial incentives to firms that undertake brownfield redevelopment.

Pennsylvania, often considered the brownfield leader, wants to make the redevelopment of brownfield sites as easy as developing greenfield ones. The state offers statutory relief from liability, a streamlined review process and straightforward clean-up standards. Pennsylvania will clean up its 1,000th brownfield site this summer, boasts Denise Chamberlain, a deputy secretary in the state’s Department of Environmental Protection.

The technology for cleaning up industrial contamination has improved steadily. (Over lunch, your correspondent suffered through a soporific discourse on the anaerobic degradation of chlorinated hydrocarbons.) Innovation has come on the finance side as well. In 1995, insurance companies began issuing the first policies to cover the risks associated with transferring environmentally impaired properties. The same year, private property companies began to specialise in buying and redeveloping brownfield sites.

Meanwhile, regulators have become more tolerant of “risk-based clean-up”, which means sprucing up land only to a level consistent with its proposed future use. Property zoned for industrial use, for example, does not have to meet the same clean-up standards as that for residential homes. Environmental groups that once wanted former steel plants returned to their pristine state of nature now recognise that every brownfield site cleaned up to a level suitable for further industrial use spares a greenfield somewhere else.

Along the way, public reaction to environmental contamination has grown less hysterical. Last year, construction of an $80m residential and retail development in downtown Chicago was halted when traces of radioactive thorium from an old lantern factory were found on the site. Two decades ago, that would have caused a media frenzy and a “Chernobyl-style” solution, says Mr Johnson. Instead, the developer removed the radiation hazard and continued building. Tests by the EPA several months later found no signs of radiation.

Brownfield clean-ups also now have a powerful supporter in the White House. Charlie Bartsch, senior policy analyst at the Northeast Midwest Institute, an environmental think-tank, points out that brownfield improvement was one of the very few environmental programmes to get more money in George Bush's proposed budget.

Christine Whitman, the new boss of the EPA (and a former governor of New Jersey, which has plenty of old industrial sites), described brownfields as her number-one priority during her confirmation hearings. Her first congressional testimony in her new job was in favour of a Senate bill that would clarify the federal liability for brownfields, provide more federal funding for clean-ups, and sort out when the states have the authority to declare a site successfully cleansed.

But the most promising signs for brownfield sites are probably the crisply ironed suits and the glossy brochures at Deal-Flow. There is money to be made in cleaning up America's brownfields. Where there is muck, to be sure, there is in the end always brass.

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Pornography

Utah sets the pace

Apr 19th 2001 | SALT LAKE CITY
From The Economist print edition

WHEN asked to perform the slightest task in his movie role as mayor of a frontier town in the American West, a character once played by Mel Brooks had this exasperated reply: “Work, work, work, work, work, work!” Some may be tempted to parrot Mr Brooks when they learn of Paula Houston’s job: basically, to look at dirty movies. But work it is. Miss Houston, a 41-year-old lawyer, has the newest government post in the state of Utah: “obscenity and pornography complaints ombudsman”, commonly known as “porn tsar”.

AP

Tsar of all that she surveys

Miss Houston’s task is to figure out what is pornography and what is not. Pornography does not feature in the American constitution, and the Supreme Court has never devised a standard for what is porn and what is not. Instead, local standards prevail. Enter Miss Houston, with Utah’s.

So far, Miss Houston has not had to spend too much time ploughing through video versions of “Bad Wives” or “Betty Blue”. She decided whether a nude mannequin was pornographic (no), and met city leaders to deal with questions about strip clubs and adult magazines. But she is no puritan. “Nudity is not pornography,” she says. But she wants to help stop the flow of really hard-core pornography into Utah.

Until recently, Miss Houston’s job might not have been all that difficult. Utah is the home of the Church of Jesus Christ of Latter-day Saints, better known as the Mormons, who famously eschew even coffee and tea, let alone salacious stuff. The church, which has some $30 billion in assets and 5m members nationwide, dominates politics in Utah.

No surprise, then, that Utah is not exactly breast-deep in smutty movies. Not that it is without vices, of course. The Mormons used to be famous for their polygamy. Although the practice was officially forbidden in 1890, it is still fairly widespread, with perhaps 50,000-100,000 polygamists in the western United States. Most of them are in Utah.

Miss Houston, a Mormon who has said that she abstains from sex, claims her main foe is not *Playboy* magazine but the Internet. That makes sense. By simplifying the distribution of “adult” materials and eliminating the need for porn fans to cruise seedy back-alley cinemas, the Internet has helped make pornography a $10 billion industry. The lucre has attracted companies one would not normally associate with the “Debbie Does Dallas” crowd—such as General Motors, which sells $200m a year in pay-per-view sex films through its DirecTV satellite-dish subsidiary, and AT&T, through its Hot Network sex channel, shipped digitally into homes over AT&T’s cable lines.

Some of this probably causes little harm. But the web has also proved to be a superb cover for paedophiles. In addition to allowing the easy exchange of photographs and films, it has created thousands of “chat rooms” as a global playground for sexual predators. On one such site, monitored by the Customs Service, some 3.2m images of sexually exploited children were downloaded in one month in 1999.

The ubiquity of computers and the difficulty of developing “filters” that skim off offensive material without restricting access to the useful sort make web-policing a formidable job. Still, the sometimes comically conservative state of Utah may be leading a charge that needs to be led. And out in front is Paula Houston, porn tsar.

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Women's soccer

A league of their own

Apr 19th 2001 | WASHINGTON, DC
From The Economist print edition

AP

Brandi doll

THE chants of the crowd were a good two octaves higher than you might expect at a big American sporting event; and the eventual score, 1-0, was not the TV-viewer's dream. All the same, the first professional women's soccer game in the United States, between the Washington Freedom and the Bay Area CyberRays, attracted a crowd of 35,000 to RFK stadium. Despite a slightly dire match, it augured well for the sport.

Anybody who has ever visited a park in suburban America can see the potential of the game: the "soccer mom", hauling her daughters off to matches in her sport-utility vehicle, has become a fixture of life. Yet, as a commercial proposition, women's soccer dangerously combines two almost-rans of American professional sports: soccer (after five years, the male league is still a patchy affair), and women's team sports (only women's basketball seems to draw the crowds—and it still lags behind the male equivalent).

The new Women's United Soccer Association (WUSA) is building its hopes on the 1999 women's World Cup. That competition was both played in and won by the United States. The final was watched by 40m viewers, more than tuned in to watch the men's basketball and ice-hockey championships that year. It also produced two undoubted stars: Brandi Chastain, who not only scored the winning goal in the final but also decided to pull off her jersey as a way of celebrating; and Mia Hamm, a telegenic striker, who now pops up in commercials for everything from sports gear to milk.

The posters for the game in Washington shrewdly focused on "Mia v Brandi". Ms Hamm plays for the Freedom, Ms Chastain for the CyberRays. The 20 members of the national squad have been divided among eight teams, based in soccer-friendly cities like New York, Washington, DC, and Atlanta.

That said, the WUSA is generally eschewing the mainly male, largely Latino fan base of male soccer. As with the women's World Cup, it is focusing on grassroots ticket campaigns, bringing in families, schools and the growing numbers of amateur senior players. The Washington Area Women's Soccer League, one of three amateur women's leagues around the District of Columbia, has grown vastly in the past two years; its 550 regular players are now evangelists for the new professional league.

The first plans are modest. WUSA is hoping for average attendances of about 7,000 people per game (roughly half what the male game gets). Ticket prices are being kept below $15. Most of the $64m that will finance the first five years of the league has come from a group of cable-TV operators. Most games are shown live on CNN's sports channel.

The longer-run aim is to imitate women's tennis, which attracts men as well as women, partly because the female version is more interestingly skilful. That would be heresy in Manchester, Turin or Barcelona. But America's soccer women do seem better than its men, who have never got further than the first round of their World Cup. And the stars tend to follow the script. Just when the first game looked like being scoreless, up popped Brandi to foul Mia. The result: a penalty kick that led to the game's only goal.

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Patience runs out in Bolivia

Apr 19th 2001 | LA PAZ
From The Economist print edition

A new round of anti-government protests points to deep-seated discontent with reform

FOR the third time in a year, Bolivians are on the march. Across one of South America's poorest countries, farmers, coca-growers, public-sector workers and the unemployed are taking to the roads, aiming to meet for a demonstration in the capital, La Paz, on April 23rd. Police attempts to disperse some groups before then have been met by threats of road blockades.

AP

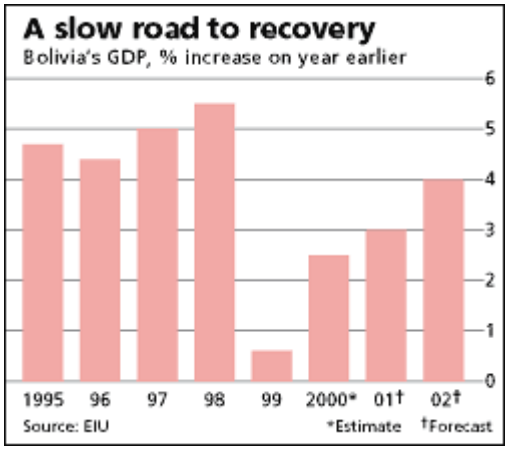
The start of a long march

The protesters' demands are broad and hardly new. They want more public investment in depressed rural areas, and an end to a United States-backed programme of coca eradication. But the underlying message is more serious. It is an expression of fatigue with 15 years of structural adjustment, privatisation and free-marketry.

That ought to worry reformers elsewhere in Latin America. Bolivia was a success story, combining stable democracy with steady economic growth, which averaged 4% a year in the 1990s. Under Gonzalo Sanchez de Lozada, a reforming president who pushed through privatisations, growth rose to 5% and Bolivia seemed set for rapid development. Now things have turned sour. Growth has slowed, income per head is below its 1998 level, unemployment is rising, and the real value of wages is falling.

The slowdown owes much to the problems of Bolivia's big neighbours, Brazil, Argentina and Peru. But the current conservative government of Hugo Banzer, a military dictator turned democrat, has not handled matters well. Gonzalo Chavez, who teaches finance at the Catholic University in La Paz, says the government was slow to grasp that two of its most successful policies were adding an extra brake to the economy: between them, coca eradication and a customs reform, which clamped down on smuggling, removed several hundred millions of dollars from the informal economy, in which many unskilled workers make their living.

The government has also been slow to implement an anti-poverty policy, as it is required to do by foreign donors under the Highly Indebted Poor Countries scheme for debt relief. Such a policy was eventually agreed upon last year, but the law to put it into practice is still awaiting congressional approval.



Meanwhile, Mr Banzer has kept tight controls on spending. Admittedly, the government has been constrained by a budget deficit that is running at nearly 4% of GDP, partly because of the high transitional cost of a pension reform. But most of the deficit is financed by foreign aid. Critics argue that, given Bolivia's record of reform, it could have persuaded donors to agree to a temporary relaxation of fiscal policy. They also claim, less plausibly, that a government plan launched last year to "reactivate" the economy by helping businesses with their debts was too timid.

Social unrest has been rising. Last September, ten people died during protests led by peasant farmers in which trunk roads were blocked for nearly three weeks, almost cutting off La Paz and Cochabamba, the country's third-biggest city. The government bought time by agreeing to many of the demonstrators' demands. Officials say they have done two-thirds of what they agreed to last year, but need more time to find a compromise solution to the protesters' demand to amend water privatisation and a land-registration law. They also appeal for patience: they say the recent "reactivation" measures need time to take effect.

But the protesters are in no mood to wait. They are being backed by an increasingly co-ordinated anti-

government movement, one of whose leaders is Felipe Quispe, a radical and influential leader of the Indian communities of the Altiplano, the bleak plateau above La Paz. He is planning a separate protest starting on May 1st. Although vehemently opposed to the privatisations, Mr Quispe is using one such reform to his advantage. He has equipped far-flung supporters with cheap and now widely-available mobile telephones, making the protests easier to organise and thus, perhaps, more effective.

The government is right when it argues that Bolivia's economic prospects are improving. Partly because of the privatisations, which involved oil, gas and transport as well as telecoms, foreign investment is rising (from around $450m in 1996 to over $1 billion in 1999). Rather than pay the government for their stakes, the buyers were required to make investment pledges (worth, in aggregate, $1.7 billion) in the privatised businesses. Half of the foreign investment is going into oil and gas, stimulated by the completion in 1999 of a pipeline taking Bolivian gas to Sao Paulo in Brazil.

The problem is that industries such as oil and telecoms are capital-intensive, generating few jobs. Much of the economy remains depressed: demand for electricity is falling, for the first time in a decade.

Mr Sanchez argues that the blame for the disappointing results of the reforms lies with his successor. He criticises the government for its economic management, and also for its "hyper-corruption", something he blames on Mr Banzer's decision to form a five-party coalition. "You have to give jobs and pork to an awful lot of people," he says.

Mr Banzer's term lasts until mid-2002. Mr Sanchez might then be voted back into office, although he accuses the government of plotting to manipulate the election. Mr Banzer himself is likely to back Jaime Paz Zamora, who ruled before Mr Sanchez. The current round of protests may well end in more talks, and more broken promises. But the signs are that a rising number of Bolivians are becoming increasingly tired of politics as usual, and of the reforms that served many of them so well for a time.

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Still no surrender in Cuba

Apr 19th 2001 | HAVANA
From The Economist print edition

THE only country in the Americas not invited to the grand summit in Quebec this weekend is Cuba. That seems to annoy Fidel Castro, the country's president. At the summit, he claimed this week, the United States would negotiate the "surrender" of Latin America, in the form of the proposed Free-Trade Area of the Americas (FTAA). "Cuba is the only country in the world that does not need to trade with the United States," he said.

Castro congratulates

The reality, of course, is that Cuba's economy has been hurt badly by the United States' four-decade trade embargo against it, as its officials frequently point out. But Mr Castro was in defiant mood. A rifle by his side, he was addressing a mass demonstration recalling his most famous victory over his enemy-in-chief. Forty years ago this week, at the Bay of Pigs in the south of the island, the fledgling revolutionary government turned back an invasion by exiles organised by the CIA. That was a fateful moment for Cuba: it humiliated the United States, consolidated Mr Castro's grip on power, and pushed him firmly into the arms of the Soviet Union, an embrace that would be formalised the following year in the Cuban missile crisis.

In a country that is obsessive about its history, it is not surprising that Mr Castro is milking the anniversary with gusto. Posters have gone up all over the place. Every evening, the television shows footage from 1961, with Fidel directing the troops. Apart from pride in its four-decade defiance of its giant neighbour, Cuba's communist leadership has another reason for commemorating the battle: it never loses an opportunity to remind Cubans of what it sees as the continuing threat from the north. "They are going to bomb us from above and we are going to mine them from below," Raul Castro, the first brother and head of the armed forces said recently, in what has become a theme of official pronouncements since President George Bush took office in Washington.

In fact, there is no likelihood of the United States trying to invade Cuba again—at least while Mr Castro is still in charge. But the message is designed to keep Cubans on their toes, and distract them from the island's continuing economic difficulties. Many ordinary Cubans are proud of their small nation's big history. But they also need the dollars they get from the exiles in Miami. And they would no doubt like to be included in any future FTAA. Instead, they must make do with history.

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Mexico

Rebels in search of a cause

Apr 19th 2001 | GUERRERO STATE
From The Economist print edition

SO HERE they are, the fearsome fighters of the Insurgent People's Revolutionary Army (ERPI), one of Mexico biggest guerrilla groups: a handful of shy, slight men in peasant clothes with bandannas over their faces, who come to the clandestine midnight interview in a remote village in the southern state of Guerrero without their rifles. In halting Spanish they explain that, despite their name, their leaders' Marxist-Leninist mouthings and the claims of Mexico's press, they harbour no serious dreams of revolution. "We're basically a self-defence movement," says their spokesman, a medium-ranking member who calls himself Alvaro. "If the government never attacks us in a big way, we won't attack it either."

That might not be the message that the ERPI's high command would like to transmit. Like several other small guerrilla groups that have appeared in the past seven years, the ERPI claims to be fomenting mass insurrection. But, although armed uprisings in the past have been central to much of Mexico's history, today's rebels live in an age of reduced expectations.

That is because Mexico's political landscape has changed radically: the election of Vicente Fox last year completed a successful transition to democracy after seven decades of rule by the Institutional Revolutionary Party (PRI), rendering armed revolt illegitimate. That change in turn owed something to Mexico's best-known rebels, the Zapatists of Chiapas. They revolutionised revolution by giving up violence in favour of a global media campaign, led by their publicity-hungry spokesman, Subcomandante Marcos. It worked: the world learned how the PRI had neglected Mexico's Indians, and the government, which was used to just stamping rebels out, found that the Zapatists were far better protected by international attention than by guns and mortars.

The Zapatists are now taking hesitant steps towards talks with Mr Fox's government. With the PRI gone, all the rebel groups have lost their main symbolic enemy; trying to keep one alive, the ERPI has claimed that the conservative, capitalist Mr Fox will do nothing for the poor.

But Mexicans who might once have supported rebellion as the only hope for change now have other options (see article). Many, of course, migrate to the United States. Some look to politics, or to social activism: the number of non-governmental organisations in Mexico, excluding political and religious ones, has doubled in the past decade, according to the federal government.

Armed struggle is, therefore, a dwindling market niche; today's malcontents have a range of options to choose from. Even so, in the wilder parts of Mexico, the guerrillas' time may not yet be past. When Alvaro explains why he joined the ERPI, it could be any guerrilla of the past two centuries speaking, but it could also be any social activist: "Poverty, abandonment, malnourished children, injustice, corruption... the government tries to silence any voice that clamours for the rights it deserves."

That still holds true in some states, in particular those still ruled by the PRI. Guerrero, the ERPI's heartland, has been especially fecund in breeding armed groups, partly because it is dirt-poor, but also because it is an opium-growing region in which many people go around armed. And it has had a particularly corrupt and despotic dynasty of local rulers. The current PRI governor, Rene Juarez, has called for talks with the rebels. Even so, "the same groups are still in power," says Juan Angulo, the editor of *El Sur*, a local newspaper.

The guerrillas, weakened by splits and the capture of some of its leaders, have been quiescent in the past couple of years. But vigilante justice and armed protest are still common in Guerrero. Earlier this month, peasants blocked a highway to demand the reopening of an inquiry into a police massacre in 1995—and a thousand tonnes of fertilizer. Half a dozen town halls were recently occupied by people protesting that their mayors were idle or corrupt, or possibly just because they belonged to a different political party.

In Mexico's new political order, then, small-time rebels like Alvaro may be more in tune with reality than his hardline leaders. Revolution, no; self-defence and local activism, yes. Mr Fox is still enjoying the goodwill that follows an electoral victory, but if his democratic changes do not reach the remoter parts of Mexico, and in particular if the delicate negotiations with the Zapatists fail, frustration in the backwaters may grow, feeding isolated guerrilla activity. "This will never stop," says Alvaro, "except perhaps when the president looks to what he should do, and feels what we, the ones who have been screwed, are feeling here."

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Argentina

Basket case

Apr 19th 2001 | BUENOS AIRES
From The Economist print edition

HAS Argentina's currency board outlived its usefulness? The arrangement, which has pegged the peso at par to the dollar since 1991, has brought the country economic stability. But some economists and politicians believe that the peso's resulting overvaluation in relation to the currencies of Argentina's main trading partners is prolonging its recession, though they agree that undoing it would be costly.

Yet, oddly, Domingo Cavallo, the economy minister, who introduced the board in a previous stint in the job, now wants to modify it. On April 17th he sent a one-paragraph bill to Congress which would peg the peso to a currency basket made up in equal parts of dollars and euros. Since few politicians have spoken out against the measure, it may be passed into law fairly quickly.

A sneaky way of devaluing the peso? Probably not. The new scheme would take effect only when (some might say if) the euro reaches par with the dollar. It is currently worth around $0.90. Yet what makes the new plan even odder is that, if the euro were subsequently to appreciate, the peso would not get full relief from a weaker dollar.

Mr Cavallo argues that the switch to a currency basket, which he has long favoured, would smooth out the impact of sharp fluctuations in the value of the dollar. In the longer run, he thinks the basket could form the basis for a single currency for the Mercosur trade group, which links Argentina with Brazil and others. And, since over two-thirds of Argentina's debt is in dollars, any appreciation of the euro (and thus, in the future, of the peso) against the dollar would reduce Argentina's debt as a proportion of its GDP, reducing the likelihood of any default.

That is the theory. The timing, says Martin Redrado of Fundacion Capital, an economic think-tank, "just creates confusion". It comes only a month after Mr Cavallo was drafted in by President Fernando de la Rua, in a desperate effort to stave off a collapse of economic confidence.

Mr Cavallo has also been sniping at Pedro Pou, head of the central bank, who he reckons has made the recession worse with an excessively strict monetary policy. That also seems an odd criticism, since under a currency board the central bank renounces an independent monetary policy; the money supply is restricted to the level of reserves (hitherto of dollars; in future, if Mr Cavallo has his way, a 50-50 mix of dollars and euros). But Mr Cavallo reckons the central bank could inject some mild monetary stimulus by cutting the funds that commercial banks must deposit with it.

If there is indeed a method, or at least a message, in Mr Cavallo's seeming madness, it is that he will stretch the limits of the currency board to seek policy flexibility, and that he has no intention of seeking full dollarisation, a move favoured by his former boss and Mr de la Rua's predecessor, Carlos Menem. Already, Mr Cavallo claims to have persuaded Mr Pou, previously a fan of dollarisation, of the merits of the basket.

But there are dangers. "The two institutions that have credibility in Argentina are the currency board and the central bank," says Lacey Gallagher of CSFB, a Swiss bank. Mr Cavallo seems to be undermining both of them—although Mr Pou has already been weakened by the bank's failure to prevent a money-laundering scandal.

As for the timing of Mr Cavallo's announcement, maybe that had something to do with a need to distract attention from the economy's woes. A 13% drop in tax revenues in March, compared with March last year, means that Mr Cavallo has had to propose another $500m a year in public-spending cuts. Still, businessmen, and investors, seem to have been won over. Financial markets plunged after his announcement of the basket, but then recovered.

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A Chinese puzzle

Apr 19th 2001
From The Economist print edition

President Jiang Zemin has to find a way of keeping both America and his own nationalists happy—which won't be easy

AP

Jiang's balancing act

AFTER 12 days swanning around Latin America, President Jiang Zemin returned home this week with a fight on his hands. His handling of the American spy-plane incident is the latest test of his political skills in a protracted struggle to ensure a smooth succession to a younger generation of leaders loyal to him, as well as his own elevation to the status of revered, semi-retired elder statesman. His success or failure will become apparent only late next year, at the 16th Communist Party Congress, and at the 2003 session of parliament, where sweeping leadership changes will be announced.

Mr Jiang's performance so far shows that he remains in control; but he is vulnerable. The spy-plane crisis demonstrated that he can in principle keep relations with America on track despite pressures from hawkish elements in the armed forces and a public opinion that increasingly gives voice to a virulent, anti-western brand of nationalism. But there are many more tests to come. The crew of the aircraft may have gone home, but the plane itself has not, and a row over that was developing fast this week. Nor is America likely to suspend its surveillance flights, as China demands.

Mr Jiang will also have to formulate a response to next week's expected decision by President George Bush on the sale of high-tech weapons to Taiwan. And he will have to decide how to handle the latest snafu in China's relations with Japan, which is wondering whether to grant a visa to a former Taiwanese president, Lee Teng-hui. Mr Lee says he wants treatment for a heart illness in Tokyo, but China's hawks will demand a robust response from Mr Jiang if Japan allows the man condemned by China as traitorous "scum" to step on its soil.

Gone are the days when a Chinese leader could establish foreign policy without reference to public opinion or the political establishment. It was possible, despite the anti-American fervour of the Cultural Revolution, for Chairman Mao Zedong to extend the hand of friendship to Richard Nixon, and in the early 1990s for Deng Xiaoping to establish ties with Eastern Europe's new anti-communist leaders, ignoring pressure from party hardliners to engage in polemics. But President Jiang is not a dictator in the mould of Mao or even Deng. He depends more on rule by consensus. That means, among other things, having to pay heed to nationalist pressures while striving to prevent economically vital relations with America and Japan going really sour.

Mr Jiang must also be mindful that every major anti-government movement in China in the past century, including the Tiananmen protests in 1989, was fought under the banner of patriotism. The party tries to present itself as the embodiment of nationalism because it knows that, if it fails to do so, its opponents of whatever political hue will try to assume the mantle themselves. So the more insecure the party feels, the more it is inclined to pander to nationalist passions. And Mr Jiang does not feel fully secure. His critics in China are already gunning for him. They accuse him of promoting his cronies, of fostering his own mini-cult of personality, and of wanting to cling to power into his dotage in the manner of Mao and Deng. Mr Jiang is 74.

Mr Jiang detained the spy-plane crew for what he probably felt was the minimum length of time necessary to demonstrate his nationalist credentials to a public and party still smarting from the bombing of the Chinese embassy in Belgrade in May 1999. But there are still many in China who believe he did not go far enough. "The foreign ministry was inundated with letters offering calcium pills," says a Chinese official—by which he means that many Chinese felt their leadership lacked backbone in the showdown with the Americans. Given the chance, many Chinese would have staged anti-American protests during the spy-plane affair, as they did after the Belgrade bombing.

Among students in particular, the United States inspires a curious mixture of respect and contempt. Many are attracted by American culture and wealth, yet resent what they feel to be American efforts to hold China back. During this latest crisis the authorities made sure that calm prevailed on the campuses, but at the cost of making Mr Jiang seem lacking in patriotic fervour, at least in the eyes of students.

It is still far from clear that Mr Jiang will get his way at next year's party congress. His aim is to step down as party general secretary but keep his job as chairman of the Central Military Commission. This would give him a platform from which to remain the ultimate arbiter of Chinese politics even after he relinquishes the presidency—as he is constitutionally obliged to do in 2003. But generals who think he lacks backbone or nationalist vigour will not be at all happy with such an arrangement. Deng used the same technique to hold on to power in the late 1980s after his retirement from the Politburo, but Mr Jiang commands nothing like the respect that Deng enjoyed within the armed forces.

Mr Jiang's instinct in the days ahead will be to try to smooth over differences with Japan, just as he would like to establish good working relations with Mr Bush. The problem is that public and institutional opinion in China—an increasingly volatile force as the country undergoes painful social and economic change—could propel him to adopt a tougher stance than common sense would dictate in order to ensure he maintains his influence in the years ahead.

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Time to forgive the sinners in China

Apr 19th 2001 | BEIJING
From The Economist print edition

BOTH China and the Roman Catholic church have much to gain from patching up their differences. But where to start? Ren Yanli, head of a Chinese government think-tank called the Centre for Christianity Studies, touches on the subject in the latest issue of *Heartland*, an independent quarterly published in Italy. “It is of great necessity”, he writes, “for the Roman Curia to make repentant self-reflections over its antagonistic actions to Chinese people” during the 1930s and 1940s, when China was at war with Japan.

On the face of it, Mr Ren’s invitation to repent over alleged misdeeds long ago does not sound promising. But coming from an academic entrusted with conveying government views, it can be taken as a hint that China is willing to think about a possible deal. Mr Ren is allowed contact with theologians abroad. He has spoken out strongly against the Falun Gong, condemning the strange spiritual group as a “heretical cult to hoodwink people”.

Strong language has often been used by the Communists against the Catholic church. They were upset last year when the pope moved to confer sainthood on 120 Catholic martyrs killed in China between 1648 and 1930. The Chinese said they were not saints, but “out-and-out sinners” who had raped, looted, spied, peddled opium and thus “deserved to die”.

A day after the canonisation, the pope offered something of an olive branch, saying the church had not meant to praise colonialism, or the actions of certain governments towards China, and he asked forgiveness for any “errors” committed by Catholic missionaries. That did not go far enough to please the Chinese. Nevertheless, there does now seem a willingness on both sides to ease their differences.

Some 4m Chinese are members of the country’s officially registered Catholic church, but they are not allowed to recognise the authority of the Vatican. Those who maintain their loyalty to the pope belong to the well-organised underground Catholic network, which may have 8m-14m followers.

For the Vatican, formal relations with China would offer hopes of access to these believers, and an end to their persecution. For China, formal relations with the Vatican would help to isolate Taiwan. The Vatican is one of only 29 governments with diplomatic relations with Taiwan. China could also claim some moral benefit from extending freedom of worship to all Catholics. It will not happen yet, but Mr Ren may have started something.

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Indonesia

Bloodshed in Borneo

Apr 19th 2001 | SAMPIT AND KUALA KAPUAS
From The Economist print edition

The killing of migrants by native Dayaks in Kalimantan, Indonesia's part of Borneo, goes on

IN KUALA KAPUAS, the latest battlefield in the long war between indigenous Dayaks and Madurese migrants, the warriors with their traditional *mandau* swords swap tales of eating human liver. The heads, livers and hearts of their victims have magical properties, they say. Beheading is their traditional way of killing their enemies, state-of-the-art magic their secret weapon.

EPA

Dayak power

And they are winning. Hundreds of the Dayaks' Madurese enemies are dead and thousands have left Borneo, probably for ever. With their bottles of magical oil that they take to the battlefield, the Dayaks can sniff out a Madurese. They can make their swords fly through the air on their own. The Madurese, of course, have magic too. But with the help of their legendary leader, Pangkalima Burung, Dayak powers are winning the day in this war among the charred tree trunks of old forest fires.

The war against the Madurese in Borneo has raged intermittently since 1997 and has claimed hundreds of lives, probably thousands. The Dayaks say the Madurese have been asking for trouble for years. The war began in West Kalimantan but in February erupted with a vengeance in the next province to the east. In the port town of Sampit, hundreds of Madurese, children included, were killed, mostly by beheading. But though the worst of the violence was quickly over, the war is not.

Dayak leaders in Sampit say Madurese heads are still carefully "warehoused", and may be brought out when needed in the future. The heads of the slain have magic properties. According to Darham Lasri, the head of a Dayak militia in Sampit, it is time for all the Madurese to leave the province of Central Kalimantan. The violence in Sampit, in the provincial capital Palangkaraya, and now in the Kapuas district in the south-east, are part of a long campaign.

Speaking during a victory ceremony just outside Sampit, Mr Darham explains that there are places still to be cleared. Next may be the area around Pangkalanbun in the west. There are still many Madurese there. In the meantime, the Dayaks are giving their ancestors thanks for their help in ceremonies marked by totem poles, the beheading of buffaloes and the wearing of dozens of red ribbons, the Dayak symbol. The ceremonies are to carry on until the last Madurese has left Central Kalimantan.

Trucked out of their homes unceremoniously with little to look forward to except a one-way boat trip out of Borneo, tens of thousands of Madurese are now living in poor conditions in Java or their ancestral home, the island of Madura. Many had never seen Madura before. They were born in Central Kalimantan and were naturally reluctant to leave their homes. Once they have left, those homes are now generally burnt by the Dayaks to ensure they do not return.

Madura is famous throughout Indonesia as a place to leave. Its poor soil and lack of industry make staying generally a one-way ticket to poverty. Many ethnic Madurese now live in eastern Java, but in the 1950s they began going to Borneo as well, some under government-sponsored "transmigration" schemes, others under their own steam. Migration was seen as a way to develop the jungles of the "land of rivers" and to relieve population pressures elsewhere in Indonesia. It was also a way to consolidate the government's hold on its restive regions.

Barren Madura is not much of a place for agriculture, so the newcomers tend to be labourers or traders. They have not mixed well. All ethnic groups in Central Kalimantan complain about the Madurese: they say they are aggressive, they try to encroach on land, they cheat and steal, and quickly get violent in disputes over women. Say a good word about a Madurese in Palangkaraya, and it might cost you your head.

For their part, most Dayaks retain *adat*, their traditional culture. This involves a reverence for ancestors and looks back to Borneo's past as a land of head-hunters in a perpetual state of war with one another. Heads were once needed to sanctify a new common house and in a host of other ceremonies. Dutch colonialists eventually persuaded the Dayaks to use buffalo heads instead. The practice of beheading humans was said to have virtually died out, until 1997.

The Madurese in Sampit have all gone or been killed now, but until February the town was around 60% Madurese. They were relatively prosperous, but aware of the violence Madurese had faced in West Kalimantan. The war first broke out there in 1997 and erupted again in 1999, when hundreds were killed in the Sambas region, to the south of the Malaysian state of Sarawak. Many Madurese refused to leave and stayed on as refugees in the West Kalimantan capital, Pontianak, dreaming of a Kalimantan to call their own.

In all this the government, as usual in Indonesia, has mostly been absent. The killing does not threaten national unity, at least not yet, so compared with the separatist movements in Aceh or Irian Jaya, it is not a high priority in the national capital. Heavily armed soldiers and police have at last started to patrol Sampit and the other troubled towns, but their members are nervous about what might happen to them if they take the wrong side in this war. So Dayak or not, almost everyone ties a red ribbon to his car these days. A Dayak who has put on a red headband has declared that he is at war. And according to tradition, once at war he must kill someone and drink the victim's blood.

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Vietnam

Manh power

Apr 19th 2001 | BANGKOK
From The Economist print edition

IS VIETNAM'S Communist Party ready to move on? As it prepared for another five-yearly congress on April 19th, the party seemed to come down in favour of change. Two days before the congress began, officials of the 150-member Central Committee let out that they were going to ditch their current secretary-general, Le Kha Phieu, in favour of Nong Duc Manh, the National Assembly's speaker. How Mr Manh governs will depend on the alignment of other stars, which was expected to grow clearer when the congress ended. But this decision was the biggest the party had to make, and it has made a good one.

The 61-year-old Mr Manh comes from the northern hills, an area Ho Chi Minh was fond of, and descends at least partly from the Tay minority. Hanoiologists consider him more of a reformer than Mr Phieu, and say that he is good at getting people to agree with each other. At the least, he has managed to broaden the way the party makes decisions, championing an expanded role for the National Assembly. His selection appears to prove this: by most accounts, the Politburo originally opted to stick with Mr Phieu, but gave in to pressure from the wider group.

Many educated Vietnamese view the conservative Mr Phieu as an inept country bumpkin. He embarrassed himself last November, during a visit by Bill Clinton. Huge crowds poured out to greet Mr Clinton, but Mr Phieu treated his guest to a pointless history lecture in a private meeting, and then let the press advertise it. Recent demonstrations in the central highlands, by minority groups seeking land rights and religious freedoms, may have weakened him further.

By replacing him with Mr Manh, the party has probably made a push towards economic reform. It is too soon to gauge whether this will mark a second *doi moi*, the name given to the market-opening reforms that began with the sixth congress in 1986. But Mr Manh is likely to carry on with the gradual changes already under way. The party's blueprint for the next five years includes an ideological, though vague, commitment to state ownership. But that should not interfere with continuing efforts to liberate the private sector.

Last year the government unleashed a flurry of such initiatives. It signed a trade deal with America, streamlined rules for starting new businesses, went on selling smaller state companies and, golly, opened a stockmarket in Ho Chi Minh City.

It is not yet clear whether the other two members of the top troika will keep their jobs. But the mildly reforming prime minister, Phan Van Khai, now seems more likely to stay in his post. Nor are there any strong signs that the party will replace the president, Tran Duc Luong. But whatever its economic plans, the party is still a closed political entity. Outsiders must wait until it announces its full team. Then they can argue about what it all means.

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Mao lives on in Nepal

Apr 19th 2001 | KATMANDU
From The Economist print edition

A GRUMBLING insurrection in Nepal is getting worse. A guerrilla movement steeped in the writings of Mao Zedong's little red book has just marked five years of "people's war" with several brazen and bloody attacks on police and officials. Over 80 policemen have been killed in the past few weeks, and the government is once again on the brink of collapse.

EPA

Chaos in Katmandu

The rebel Communist Party of Nepal wants, among other things, land reform. It has taken control of, and has support in, remote and miserably poor parts of the mountains. Of the kingdom's 75 districts, five have been declared "liberated zones" and the Maoists are active in over half of the rest. In Katmandu, the capital, they have bombed the homes of judges and policemen, and forced businesses to pay a "people's tax" as protection money.

In the countryside, lightning raids by increasingly well-armed fighters have demoralised the police, and sent officials and local politicians scurrying to the towns. Some policemen are refusing to fight. They fear the Maoists, who are said to kill their prisoners.

The fighting is also affecting Nepal's shaky politics. The country has had six governments since fighting broke out in 1996. None, including the current one, led by 78-year-old Girija Prasad Koirala, has been able to defeat the rebels. Mr Koirala, who promised to get tough on the Maoists, has overseen a particularly bloody period. This week 150 opposition supporters were arrested after thousands took to the streets to protest. Mr Koirala's own party may split unless he goes.

A paralysed parliament failed last month to pass measures to arm and train 15,000 extra police officers. The prime minister's efforts to deploy the army have raised fears of civil war. King Birendra, who has been a constitutional monarch since 1990 with only ceremonial powers, is said to be contemplating ways in which he might return to centre stage.

The general uncertainty hurts the economy, which is anyway feeble. More tourists are visiting this year than last, but investors are worried by the violence and by any prospect of Maoist rule. Only talks with the rebels would soothe matters. But, despite encouraging words from the deputy prime minister, Ram Chandra Poudel, they are unlikely while Mr Koirala is in charge and the rebels score military hits.

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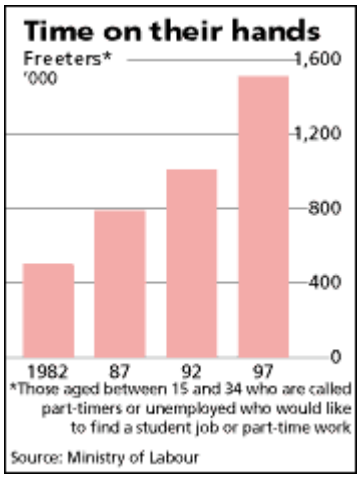
Japan

Poor little rich kids

Apr 19th 2001 | TOKYO
From The Economist print edition

TAKA KAWAHARA cannot put his finger on exactly why it happened. Maybe it was because of the time he spent at school in North America. Maybe it was his two years of examination hell back home, when he crammed for four or five hours each day to get better marks. Maybe it was the dormitory leader at university, a disciplinarian who prepared students for traditional company life by running his own seniority system. Whatever the reason, Taka did not follow his friends into Japan's big banks, trading houses and insurance companies. While they were cutting their hair, washing out the dye and trying on their job-hunting suits, Taka stuck to his music and his part-time jobs, as a waiter or working the telephone. Ten years later, he is still at it. The struggle to get into Japan's swankiest companies starts early in life. But somewhere, Taka lost his way. "The race lost its meaning," he says.

Older Japanese look at young people like Taka and despair. They have a good education. Their parents are rich and offer support. Yet more and more of them are turning away from the middle-class Japanese way of life—a safe job in a big company, a house in the suburbs, a wife, two children and a big mortgage. Instead, they drift from one low-skilled job to the next and join the swelling ranks of permanent part-timers. The Japanese call them *freeters*, a word that combines "free" with the German word for a worker, *Arbeiter*. Like America's slacker generation, Japan's *freeters* (officially, under-35s without a full-time job) have seemingly carefree lives. They are unconcerned about the future. Their numbers are rising.



Not all *freeters* are slackers. Some want long-term jobs in big companies but cannot find them. As the economy has slowed, Japan's system of lifetime employment has forced big companies to make deep cuts in graduate recruitment, the one area where they can shed jobs. But most *freeters* choose to drop out. According to the health and labour ministry, two in five young Japanese have no desire to work as salaried company employees; four in five of those unemployed and aged 15 to 24 left their last job voluntarily. Ten years ago, university graduates were expected to pick a company and stick with it for life. Now, one-third of them leave their first job inside three years.

Gloomier Japanese see *freeters* as a symptom of some awful social sickness that Japan has acquired with its wealth. Pampered and spoiled by their indulgent parents, *freeters* lack the strength to suffer today in the expectation of rewards tomorrow. So they give up tough, low-paid jobs with prospects and take easy, low-paid jobs without prospects instead.

Others see *freeters* as another manifestation of Japan's dependency culture. Nearly four in five of them continue to live at home. They pay no rent and no bills, do no housework and even get extra pocket money from their parents, who encourage them to stay at home rather than suffer the poverty of independence. Masahiro Yamada of Tokyo Gakugei University calls them "parasite singles", leeches who support their comfortable consumer lives by attaching themselves to their parents. "Many children think their parents will do anything for them," says Mr Yamada. Shinji Miyadai of Tokyo Metropolitan University is more sympathetic. Mr Miyadai says that big companies no longer offer attractive employment terms for young people. Middle-aged workers continue to enjoy the comforts of lifetime employment.

Sponging off their parents, meanwhile, equitably completes the flow of money between generations. As Japan's population ages, its pay-as-you-go pension system transfers more and more money from young workers to the retired. Lifetime employment does the same thing. In a typically harmonious Japanese arrangement, stay-at-home singles are simply claiming some of the money back, it could be argued.

Some *freeters* find a direction. Taka sings in a band and dreams of being a pop star. But most *freeters* are poorly equipped to make their own way in life.

As Japan’s working population begins to shrink, these discouraged workers will become a serious waste of Japan’s only resource, people. Because young people are staying at home and not marrying, the birth rate keeps falling, making the finances of Japan’s pension system ever worse. Living from day to day has its charms. But at some point, Japan’s future will catch up with it.

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Will Western Europe receive the great unwashed—one day?

Apr 19th 2001 | BRUSSELS AND FRANKFURT-ON-THE-ODER
From The Economist print edition

Central Europeans who hoped that joining the European Union would give them immediate access to jobs in the west have already had a nasty shock

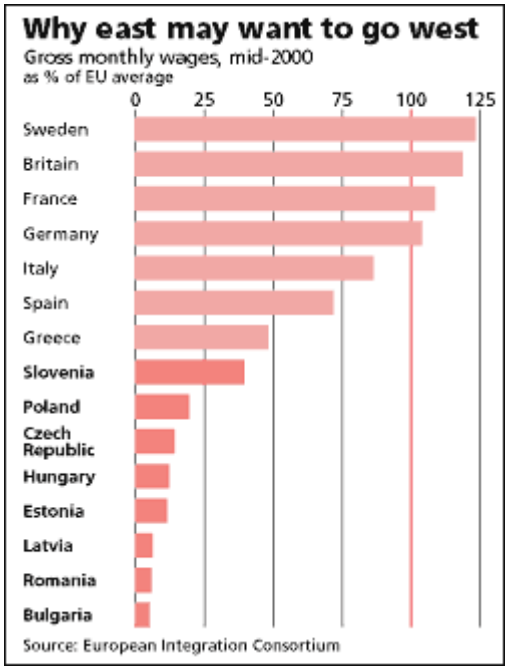
Corbis

AT THE customs post on the bridge dividing Germany from Poland, Polish border-guards grin as they ask all those wishing to cross into their country to wash their hands and walk across mats of disinfectant. This is meant to protect Poland from the spread of foot-and-mouth disease. But it is also rather gratifying to those Poles who suspect their rich German neighbours of disdaining them as the great unwashed.

During the protracted negotiations to admit as many as ten countries, mostly in Central Europe, into the European Union, the applicants' suspicion that West Europeans want to keep them at arm's length has flared up from time to time. So it was no surprise that Poles and others reacted angrily this month to the news that the European Commission, the EU's bureaucracy, would propose restrictions on the free movement of labour, even after they join the EU.

The commission's proposal is close to one made by Gerhard Schröder, the German chancellor. The idea is that the new members' citizens will not be allowed complete access to the western countries' job markets for up to seven years after they join the EU. The commission stresses that the arrangements will be reviewed after two and five years, and may be dropped at an early stage. But the proposal has still gone down badly in the applicant countries.

The basis for West European wariness is clear, if flawed. There is an enormous wage gap between the EU's current 15 members and the would-be members—some of which are likely to join the EU as soon as 2004 or 2005. In nominal terms, average wages in the ten Central European applicants are only 14% of the average in the EU 15 (see chart); even adjusted for purchasing power, the gap is stark, with Central European wages less than 40% of those paid in the EU 15. This gap has led to fears among the EU's present members of a flood of cheap labour from the east, dragging down the wages and social standards of the west.



Curiously, both sides of the debate—the commission in Brussels and the governments in Central Europe—agree that such fears are exaggerated. All countries in the EU 15 have minimum wages, which workers from Poland or elsewhere could not legally undercut even if they were willing to work for less. The real "threat" to the unskilled workers of the west comes from illegal labour from the east, and there is already plenty of that in the EU 15, because most Central European countries already enjoy visa-free travel to the EU.

Poor Central Europeans may also be more reluctant to uproot themselves than is often assumed. Even within countries, populations can be strikingly immobile. In the Czech Republic and Hungary, the capitals, Prague and Budapest, are booming, whereas other parts of the country have high unemployment. But there has been no mass migration to the cities. When it comes to skilled labour, many of the current EU 15 are crying out for workers in industries such as information technology. But again it is far from clear that Central Europeans are desperate to move. Indeed, when Germany recently announced that it would grant visas to IT-workers from some non-EU countries, the Poles failed to take up their whole quota.

Where the heart is

Both sides agree that the issue of the movement of labour is, therefore, largely political and symbolic. The applicant countries fear that a refusal to grant immediate free movement sends a signal that they will be “second-class members” of the club. The commission, however, believes it is politically essential to assuage fears in the west, particularly in Germany and Austria, about an influx of labour from the east. Eurocrats know that Jörg Haider, the leader of Austria’s far-right Freedom Party, has played upon fear of immigrants in his political campaigns. And they also think that Germans in particular are pretty cool about the EU’s expansion. Recent opinion polls show that only 36% of Germans actually support it.

The commission points out that similar fears about mass immigration were expressed when Spain, Portugal and Greece joined the EU in the 1980s. Those countries also suffered a seven-year restriction on freedom of movement. But, even when it was lifted, no large-scale migration followed.

Recent analyses suggest a similar pattern when the Central European countries join the EU. A study by the European Integration Consortium, a group of think-tanks, estimated that, in the first years after complete freedom of movement was established, around 335,000 Central Europeans would move west each year. Over the course of a decade some 2.9m people would move—of whom roughly 65% would end up in Germany, 12% in Austria. Within 30 years around 2.5% of the population of Germany would be of Central European origin.

Such a limited transformation would surely be manageable. But the authors of the study are careful to acknowledge that their figures can be little more than informed guesses. A serious political or economic upheaval in one of the new member states could easily throw calculations out.

Moreover, though Western Europe as a whole will probably easily absorb—and indeed benefit from—a flow of migrants from the east, particular groups and areas may find it hard to adjust. In eastern Germany, unemployment is now around 20% of the workforce, and local German workers are already chafing at competition from across the border.

As things stand, it is hard to see why residents of Frankfurt-on-the-Oder would have their hair cut in town, when they could have it done at a quarter of the price by walking across the bridge to the Polish town of Stubice. These days, they would even get a dose of disinfectant thrown in for nothing.

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Germany

The feelbad factor

Apr 19th 2001 | BERLIN
From The Economist print edition

An economic slowdown poses a political threat to Germany's chancellor

GERHARD SCHRÖDER, Germany's chancellor, thinks that the economic climate is formed by psychology as much as by hard statistics. That may explain his determinedly cheerful response to mounting evidence of a slowing economy. He no longer suggests, as he did in December, that 2001 may be an even better year than 2000, when the economy grew by 3%, its fastest rate for a decade. But he does insist that Germany is still on a path of "robust growth".

AP

Schröder doesn't like his own medicine

Even he, however, has been forced to admit that the government's forecast of 2.6-2.8% growth for this year may now be "hard to achieve". Indeed. Last week Germany's six leading economic-research institutes revised their growth forecast for this year down from 2.7% to 2.1%. Unemployment, having been falling steadily, has been on the rise again for the past three months. Business confidence is at its lowest ebb since July 1999. And, faced with dwindling tax revenues, the government is desperately looking for the least painful way to balance its books before next year's general election.

Analysts are predicting that next month's publication of the latest forecast of tax revenues will show a shortfall of around DM10 billion ($4.5 billion) from the government's budget. It may be obliged either to cut spending or to pile up more public debt. Neither option appeals to a government facing re-election, one of whose strongest selling-points is its strict adherence to a long-term austerity programme.

Hans Eichel, the finance minister, has staked his reputation on his promise to balance the budget and to start reducing Germany's towering DM1,500 billion of public debt, some 60% of GDP, by 2006. At the same time, he is continuing to cut taxes—by an estimated further DM45 billion this year—and has pledged to keep the rise in government spending below the level of inflation, meaning a small cut in real terms. Messrs Eichel and Schröder are both wary of deeper cuts, not least for fear of further jeopardising growth. But they are equally anxious not to forsake austerity by borrowing more.

So what can be done? There has been talk of using the proceeds of privatisation to bridge the gap between revenue and spending. But that would rile the European Commission, whose rules do not allow such proceeds to be used in calculating the public deficit. Last October, Germany told the commission that it would hold its deficit to 1.5% this year. But with a revenue shortfall of DM10 billion, it would rise to 1.7%.

Yet, only a few months ago, everything had looked so rosy. With the scandal-plagued opposition party, the Christian Democrats, still in disarray, the Social Democrats' Mr Schröder seemed a shoo-in for re-election to a second four-year term. Now the government suddenly seems in danger of being blown off course. Even Mr Schröder's fairly modest goal of bringing unemployment down to 3.5m by next year's general election might not be met. Some 3.8m Germans have no job—only 300,000 fewer than when Mr Schröder was elected in 1998.

But the chancellor still has some options. For a start, he could loosen Germany's still rigid labour market. Mr Schröder is in no hurry on that score, since it would be an unpopular action. But he has begun making some distinctly crusty noises about the unemployed. Germans had "no right to laziness", he said, adding that those who reject "a reasonable job" might lose benefits. Germany has around 1.5m unfilled job vacancies, some 40% of them for unskilled or semi-skilled workers. Mr Schröder's threats have provoked squeals from the trade unions. But some right-wing leaders, such as Edmund Stoiber, the premier of

Bavaria, have applauded him.

The next 18 months will certainly not be easy for the government. But the outlook is not as gloomy as it may seem. Despite the economic downturn, two-thirds of Germans consider the government is doing a reasonably good job; only 14% believe the Christian Democrats would do any better. Mr Schröder remains Germany's best-liked politician, and deemed capable of trouncing either of his two most likely rivals for the chancellorship: Mr Stoiber or Angela Merkel, the Christian Democrats' leader.

Still, the tide could turn against him. The latest polls suggest that, despite Mr Schröder's popularity and the lack of enthusiasm for the Christian Democrats, the Social Democrats are still only 3-6 points ahead in actual voting intentions—and that is before voters begin to feel the effects of the downturn. No wonder Mr Schröder is trying so hard to talk the economy up.

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France

Lionel's share

Apr 19th 2001 | AVIGNON
From The Economist print edition

WILL the tide now turn, and sweep Lionel Jospin, France's Socialist prime minister, to the presidency in next spring's election? If so, the pundits may yet praise his 43-minute television interview on April 17th, his first for six months. If not, they can simply picture him as the helpless pilot of a rudderless boat, unable to steer his own course or to execute what Mr Jospin described as the function of government: "to confront crises and misfortunes, to deal with problems."

Certainly, over the past month, the prime minister has had his share of problems. First came the disappointment of the local elections. Instead of a left-wing "pink wave" rolling across France, it was the right—supporters of President Jacques Chirac—who unexpectedly made net gains. Then, with the Easter holidays beckoning, came a double blow: France's cosseted railwaymen went on strike and two large companies—Marks & Spencer, a British chain-store, and Danone, a food giant—announced fierce retrenchment plans. To cap it all, a visit to the Somme region to show "solidarity" with flood victims turned into a public-relations disaster: locals heckled Mr Jospin, removed wooden walkways to make sure he too would get his boots wet, and accused his government of diverting water-courses to keep Paris dry at their expense. No wonder the prime minister's promise to make it costlier for profitable firms to lay off workers smacks of headline-grabbing desperation.

Such events, of course, provide the usual strains of politics, and more will doubtless follow: other big manufacturers such as Moulinex-Brandt, Philips and Valeo are also likely to lay off workers in France. What is unusual for Mr Jospin, who likes to project Protestant *sang-froid* in public, is his reaction to the strains. Earlier this month, on a visit to Brazil, he made a speech on globalisation and then answered a couple of questions from his audience of students on the French local elections. When French journalists travelling with him chose to ignore his speech and highlight his views on the French elections, his fury was such that he reduced one journalist to tears. Subsequently, Mr Jospin apologised for his "brutality", not because he regretted his words, but because the brutalised journalist was a woman. All of which prompted his Green (and female) environment minister, Dominique Voynet, to suggest he needed "a week's holiday".

Instead, the Jospin remedy was to go on television and tell everyone to calm down: with America's economy slowing, France is the world's "motor"; lay-offs happen, but are happening at a lower rate than before; all we have to do is stick to our course.

Will that course involve the prime minister stepping down in order to prepare his bid for the presidency? Mr Jospin says not: "I have been entrusted with a mandate, and I will use it while I have a majority." And then he adds coyly that a presidential bid is not a foregone conclusion; he has, he insists, no personal, driving "need" for the job.

But that is surely a disingenuous tease. Mr Jospin still matches Mr Chirac in the opinion polls, and although his rating as prime minister is falling (by five percentage points in the last recorded month), at 52% it remains comfortingly high.

Perhaps the real problem is that Mr Jospin is beginning to bore the voters. "We've been governing for almost four years," he told his television interviewers, "and the French have their own temperament: they're an emotional people who don't always have a sense of perspective or time." True enough, and the tide may ebb and flow several times before they choose their next president.

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Charlemagne

Leszek Miller, Poland's wily man of the future

Apr 19th 2001
From The Economist print edition

Get article background

HE MUST be one of Central Europe's canniest survivors from the communist era, for Leszek Miller is the only Pole still in the forefront of politics who was a member of his country's last Politburo to take its cue from the Kremlin. Under the communists, whose memory most Poles still revile, he was an eager apparatchik. Yet now, in his shiny new social democratic guise, he looks set to become the country's prime minister after the general election due this autumn, as the ruling right, under its once-glorious Solidarity banner, collapses amid recrimination and muddle. Is Mr Miller up to the task?

If he gets it, he is likely to be in the top job at a historic moment—just when Poland joins the European Union. Indeed, Mr Miller will probably be in charge of the negotiations as they reach their most delicate stage, in the first half of next year. It will be tricky. Two bad bits of news hit Poland last week. First, the OECD suggested that nearly 17% of Poles would soon be out of a job. Second, the European Commission in Brussels decided to back a German proposal that, even when Poland and other Central European countries have joined the Union, they must still wait for up to seven years before their people can travel freely around the EU looking for jobs.

The economic shake-up and job losses following communism's fall are now linked in many Polish minds to efforts to prepare the country for the EU. But jobless Poles are being denied the safety-valve of automatic access to labour markets in the west. If the EU keeps its doors shut, the poorest Poles, who have suffered most under the past decade's rough switch to the market and who are Mr Miller's natural supporters, could become very angry. Some are already. When Romano Prodi, the commission's head, visited Poland earlier this year, a few ungrateful Poles pelted him with eggs.

Yet, with the election looming, both sides are finding it ever harder to make concessions, for fear of looking weak and unpatriotic in the voters' eyes. Mr Miller, for example, says that any transitional period before Poles can go freely to the west for jobs is "unacceptable". But privately he must know that concessions on a host of issues, from the free movement of labour to Polish access to farm subsidies, are inevitable if a deal is to be struck. In a hint that he recognises as much, he adds: "We know that Poland is negotiating to join the EU, not the other way round."

Certainly the bureaucrats in Brussels trying to clinch a deal are hoping that Mr Miller will be flexible when, early next year, the critical issues of farming and regional aid will be tackled. But this is where the sneers of his compatriots on the right may make him hesitate. His past, they say, predisposes him to truckle to foreigners. "Moscow, Brussels—it's all the same to him," says one.

Mr Miller is indeed notably unrepentant about his communist past—unlike, by contrast, President Alexander Kwasniewski, another ex-communist who was once minister of sport in the old era. Mr Miller, now 54, still justifies the ruthless, Soviet-approved imposition of martial law and the crushing of dissidence under General Wojciech Jaruzelski in 1981, when he was an obedient party hack. "He saved us from something much worse," says Mr Miller, meaning the bloodier Soviet repression meted out in similar circumstances to Czechs and Hungarians. And, though he talks the lingo of social democracy, he still presses the buttons of class struggle. "In Poland there are people feeding off rubbish dumps," he says, bemoaning the widening gap between rich and poor.

In fact, Mr Miller has cleverly created a political persona that bows loyally to the proletarian past and the old welfare state while at the same time praising the market and modernisation. The nationalist right, at the heart of the current government, insists—naturally enough—that under his fresh veneer Mr Miller is still a dogged socialist who will readily betray his country's new-found sovereignty. Some say he still has a hot line to the Kremlin and still quietly cherishes old links with the Russian intelligence service; some even hint—without hard evidence—that he got Russian money to help found his party, the Democratic Left Alliance. He was, they darkly point out, interior minister in the ex-communist government of 1993-97.

Moreover, he readily acknowledges that his government would be less friendly to the Roman Catholic church, long the repository of Polish nationalism and a buttress of the right. Mr Miller says he will ease laws against abortion and against sex education in schools, and will legislate to make women more equal to men. He says he will tilt welfare to give bigger handouts to the poorest. Unlike many on the right, he does not romanticise the countryside; he was brought up in a small milling town.

But his style has changed drastically, even in the past few years. He is learning English—he spent a month last summer with a family in Canterbury—sports natty golf sweaters bought by his wife, skis in Austria and tells of his emotion when granted an audience with the pope. He expresses admiration for some of the old dissidents he used to fight against, such as Adam Michnik and Jacek Kuron. He says his favourite book is “The Master and Margarita”, the uproarious lampoon of early Soviet Russia by Mikhail Bulgakov. All too neat a conversion? “A dancing monkey auditioning for a part,” is how a sceptical ambassador in Warsaw describes a meeting with him.

But few deny that Mr Miller is a consummate politician, and a good example of how much Poland’s ex-communists have changed. His solution to unemployment? Let the economy grow faster. Taxes on business and investment must be cut. It should be easier to hire and fire. Joining the EU will, he says, be the third greatest moment in Poland’s history, after its conversion to Christianity a millennium ago, and the union of Poland and Lithuania in 1569, when Poles agreed to be ruled by a Lithuanian king in a joint domain that later once stretched from the Baltic to the Black Sea. “We have no alternative” to joining the EU, he says. “We can’t be on the outside of a European civilisation that is prosperous and democratic; we must modernise ourselves—and we can’t do it alone.”

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Russia

Media muzzle

Apr 19th 2001 | MOSCOW
From The Economist print edition

TO HEAR some journalists talk, it is time to pack for Siberia. Yevgenia Albats, a veteran KGB-watcher, says that "democracy died in Russia" over Easter. Mikhail Berger, the editor of *Sevodnya* (Today), a daily newspaper that closed two days later, talks of a "quasi-Soviet" system being restored.

Who owns what?

Name	Owner	Politics
TELEVISION		
ORT*	State & Roman Abramovich	Pro-Kremlin
RTR*	State	Pro-Kremlin
NTV*	Gazprom	Pro-Kremlin
TV6	Boris Berezovsky	Independent
Ren TV	UES (electricity monopoly)† & Lukoil	Kremlin-leaning
TNT†	Gusinsky	Independent
Kultura	State	Pro-Kremlin
Prometei	Gazprom	Pro-Kremlin
RADIO		
Radio Rossiya	State	Pro-Kremlin
Radio Mayak	State	Pro-Kremlin
Ekho Moskvy	Gusinsky	Independent
PRINT		
Izvestia	Prof-Media (part of Vladimir Potanin's Interros group)‡	Kremlin-leaning
Kommersant	Berezovsky	Wobbling
Komsomolskaya Pravda	Prof-Media	Kremlin-leaning
Nezavisimaya Gazeta	Berezovsky§	Pro-Kremlin
Noviye Izvestia	Berezovsky	Independent
Vedomosti	Independent Media Group, *Financial Times* & *Wall Street Journal*	Independent

*Nationwide †Satellite channel ‡Majority stake
Source: Reuters; *The Economist* §Abramovich seeking to buy

What is certainly true is that the remains of Russia's frayed and battered independent media have taken another walloping from the Kremlin. The country's main independent television channel, NTV, in effect came under government control with the Easter takeover by new management that answers to Gazprom, the national gas monopoly in which the state is the largest shareholder. The same fate has befallen *Itogi* (Results), a weekly, as well as *Sevodnya*. Like NTV, both were part of the media empire of Vladimir Gusinsky, a tycoon much disliked by the Kremlin, who is in Spain fighting extradition to Russia to face fraud charges back home.

It is not over yet, though. Many journalists from NTV have temporarily migrated to TNT, a small and hitherto lightweight cable channel also owned by Mr Gusinsky. NTV's editor has joined TV6, another minor but bigger channel owned by Boris Berezovsky, once a powerful tycoon but now also a fugitive (in Paris) from the Kremlin's brand of justice. His news programme will be screened on both channels. Journalists from *Itogi* hope to start a new magazine, also in partnership with *Newsweek*, an American magazine that this week hurriedly suspended its licensing agreement with *Itogi*. All the victims' websites are still functioning.

While the journalists keep up a shrill chorus of protest, Gazprom crunches on. Its next targets are TNT and *Ekho Moskvy* (Moscow's Echo), an influential radio station whose programmes are widely rebroadcast across Russia. Some hope that the Kremlin will call its dogs off before then. Meeting the German chancellor, Gerhard Schröder, last week, President Vladimir Putin insisted that he believed in press freedom. Ensuring that what is left of it survives the summer would be a good start.

The panicky reaction of Russian liberals may yet be proved right. Independent media in the provinces of Russia have been shrivelling for years, under the combined assault of powerful regional bosses and their business friends. Now the same is happening at the centre. But, for the time being at least, information is still available to anyone with an Internet connection or a decent radio. The Kremlin's line so far seems to be that it will whack powerful opponents but ignore weak ones. And the process is a slow one, with at least a light dressing of legality. Mr Gusinsky's large unpaid debts to Gazprom made him an easy target.

In other circumstances, Mr Gusinsky's empire would be hard for lovers of press freedom to defend. Its history of sleazy practices (such as blurring editorial and advertising) and toadying to the authorities (notably in the Yeltsin era) make some Russian journalists think that the official media are on the whole less bad. The new tie-up with Mr Berezovsky, who mixed money and politics as flagrantly as any of his fellow magnates, tests even the most cynical journalists' stomachs.

Mr Putin and his government may benefit in the short term from silencing their critics. In past days, he has also consolidated his position in parliament. In the lower house, the Duma, the main non-Communist opposition grouping, Fatherland-All Russia, has decided to merge with Unity, the main party that was in the Kremlin's camp. Two other factions are set to join too. That would give the government an overall majority. "Mr Putin's team is building a structure where the regime will have no competitors in any field," says Mr Berger.

Shooting (or bankrupting) the messengers does not change the message though: economic growth is slowing, reform is flagging, the Chechen war is at stalemate, and the country continues its downhill slide.

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Armenia and Azerbaijan

Crossroads in Karabakh?

Apr 19th 2001 | TALYSH
From The Economist print edition

AT LEAST until this month, when prospects suddenly brightened for the settlement of a bitter 13-year-old feud between the Armenians and the Azeris, western talk of a rosy future for the southern Caucasus sounded like a sick joke. Now there really is fresh hope of a lasting peace.

In diplomatic theory, the region's three small states—Georgia, Armenia and Azerbaijan—were supposed to provide a natural thoroughfare between Europe and Asia for gas and oil from the Caspian Sea and Central Asia. In practice, more than a decade of conflict has turned the region into a patchwork of poorly-observed ceasefire lines, minefields and dead ends—preventing humdrum local trade, let alone big international deals.

Few ends are deader than Talysh, a community of Armenians surrounded on two sides by troops guarding a ceasefire line at its most north-easterly point in Nagorno-Karabakh, a disputed Armenian-held territory that is internationally recognised as part of Azerbaijan. The villagers' freshwater supply, the river Indzhachai, is now out of reach on the front line. In the old days, the Azerbaijani town of Ganje and all its business opportunities were just 50km (30 miles) away. Now the nearest metropolis is Armenia's capital, Yerevan, a twisting and circuitous eight-hour drive to the west.

After six years of worsening strife, when the two sides took turns to bombard, shell and ethnically cleanse territory with scant regard for civilian life, some locals may have been grudgingly thankful, in 1994, when the losing Azerbaijani side cut its losses and agreed to a truce. But economic development has been frustrated by the lack of a long-term settlement.

Things look better, though, after a five-day conference that ended earlier this month at Key West in Florida, bringing together Presidents Heidar Aliev and Robert Kocharian of Azerbaijan and Armenia respectively, the American secretary of state, Colin Powell, and senior French and Russian officials. The State Department said "substantial progress" had been made after international peace-makers relayed proposals between the Armenian and Azeri leaders, who later flew to Washington to see President George Bush. More talks are planned for Geneva in June; there are hopes that at a further meeting in Moscow the two Caucasian presidents may even sign a binding accord.

The contours of a possible deal are becoming clear. The Armenians would give Azerbaijan back six of the seven regions they captured. Nagorno-Karabakh and the adjacent Lachin region that links it to Armenia would be granted self-governing status. Azerbaijan would be compensated with an internationally protected road, linking it to its isolated enclave of Nakhichevan.

If the logjam were at last to break, it would be a rare example, these days, of co-operation among the big powers. The Bush administration has been energetic in the Caucasus, even as it vows not to micro-manage the Balkans or the Middle East. It seems willing to accept Russia as a partner in diplomacy; for its part, Russia may have been persuaded that it has more to gain from co-operation than from wrecking.

Meanwhile, the Kremlin has begun to repair relations with Azerbaijan, which had, until recently, been among the most Russophobic of ex-Soviet republics. If the Azerbaijani position has become less rigid, that may be because Mr Aliev, a 77-year-old veteran of the Soviet Politburo, wants to bequeath a settlement to his son and heir-apparent, Ilham. France's president, Jacques Chirac, has also been involved in negotiations. And, intriguingly, the senior American negotiator at Key West, Carey Cavanaugh, said Iran was being kept informed of developments too.

So the region may finally emerge from its morass of sputtering conflict and closed borders. Not before time: the combined GDP of Armenia, Azerbaijan and Georgia is a pitiful $10 billion a year; and the talented from all three countries have been steadily emigrating.

But to win a lasting peace, you have to persuade people like the villagers of Talysh of its virtue. So far the region's leaders are adopting the Soviet practice of keeping their citizens in the dark.

Talysh was captured and recaptured during the Karabakh war; three-quarters of its 600 houses are still in ruins. The inhabitants, most of them old, scrape a living from their animals and pensions of around $12 a month. Securing peace will mean persuading such people that the benefits of a settlement, such as the possibilities of trade with Azerbaijan all around them, outweigh the perceived risks, such as the return of people they see as enemies to live among them. That job has barely begun.

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Will Montenegro go independent?

Apr 19th 2001
From The Economist print edition

TINY Montenegro, the only republic still yoked to Serbia in the rusty Yugoslav federation, often seems as if it is in a time-warp. Until recently it was among the few bits of the Balkans where photographs of Marshal Tito, post-1945 Yugoslavia's founder, remained on display. Podgorica, the communist-era capital of the Yugoslav republic of Montenegro, seems uncannily like Moscow around 1990, leavened by some Mediterranean sunshine, pine forests and cafés. As for Cetinje, the capital of the kingdom of Montenegro until 1918, it feels like a self-consciously designed stage-set, with its miniature, pastel-coloured palaces and embassies waiting for a magic wand to bring them back to life.

Just as in the dying days of the Soviet Union, visitors to Montenegro meet clever, dishevelled anti-communist intellectuals, brilliantly dissecting the old system's failings but not sure how to build a new one. And in the background there are less articulate but tougher figures: politicians, factory bosses and criminals who want a stake in the new order.

With the general election on April 22nd, Montenegro's history may take a sudden leap forward; supporters of President Milo Djukanovic and his campaign for independence may haul in at least two-thirds of the vote. They should then be well placed, after holding a referendum and perhaps new elections, to re-establish Montenegro as a sovereign state. A mooted date for the plebiscite is July 13th—the day, in 1878, when the kingdom won international recognition.

A third or so of the voters may, however, plump for parties that favour keeping a close union with Serbia, and with it the rump federation of which Vojislav Kostunica is president. Dragan Soc, a politician who recently left the ruling coalition to join the opposition, says he is counting on France, Italy and Russia to stop Yugoslavia's final break-up.

Although countries that have been historically friendly to Serbia may regret Montenegro's secession, they seem unlikely to send any gunboats to prevent it. For one thing, they can hardly object to Montenegrin independence if Serbia itself swallows that bitter pill. Moreover, unlike his war-mongering predecessor, Slobodan Milosevic, Mr Kostunica seems to accept that Montenegrin independence, however undesirable, may now be inevitable.

Indeed, Mr Kostunica may already have other things on his mind. For unless he moves artfully and fast, he could be left as head of a non-existent state, much as Mikhail Gorbachev, the last Soviet president, was in 1991. So he will probably make a bid for the state presidency of Serbia as part of a general overhaul of the Serbian constitution.

Late Soviet history has other lessons. Once the break-up of a communist federation goes beyond a certain point, it becomes irreversible. Not only do the smaller states within it want to break free, but the bigger one can no longer accept the economic and political price demanded by its junior partner(s) for staying together.

That certainly applies to the creaky old Serbian-Montenegrin union. Even the most pro-Serbian of Montenegro's politicians are probably looking for a better deal than Serbia can give. So, by the end of the year, Montenegro could be an independent state and the Yugoslav federation null and void. Then the hard part would begin: deciding what to do with Kosovo, which has been deemed by the United Nations to be part of Yugoslavia, though not necessarily of Serbia.

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Why old Italians like a list

Apr 19th 2001 | LECCE
From The Economist print edition

IT WAS Massimo D'Alema, a former prime minister and chairman of the ex-communist Democrats of the Left, who rocked the boat—by declaring on television that in the general election due on May 13th he would stand only in his constituency round Lecce, in the heel of Italy. "It's not a safe seat," he said. "But I'll fight to keep it. I've established a strong link with the place. I'm their member of parliament. I'm not joining the queue to get in by PR."

Trouble-maker, muttered other politicians. A quarter of the seats in Italy's lower house are allocated by proportional representation. So—provided his party gets at least 4% of the vote—any candidate who can climb near the top of his party list is safe. Most party leaders do that. Some claim it is so that their names can help to drag voters towards their party. That may be true for the big three on the right: Silvio Berlusconi, Gianfranco Fini and Umberto Bossi, whose coalition is forecast to win an overall majority, were never going to have trouble finding a safe seat. For others less secure, however, PR is a lifeline—but one they would sooner not draw attention to.

Giorgio La Malfa, the leader of a small, free-market party that has switched horses and now backs Mr Berlusconi, has been rewarded with a number-two spot on a party list in Emilia (lists are regional). Mr Berlusconi's trusted spokesman, Paolo Bonaiuti, will stand only on Forza Italia's PR list. Cesare Previti, Mr Berlusconi's lawyer and briefly minister of defence in 1994, currently on trial for alleged bribery, will sit and wait for results in Calabria.

On the left things are more frantic. A few safe seats have been snapped up by big shots: the foreign minister, Lamberto Dini, is entrenched in Florence, and refuses to budge. But there is cut-throat competition for a spot on the party lists. The Greens' leader, Grazia Francescato, will be standing on their PR list, in both Apulia and Piedmont. Walter Veltroni, the leader of the Democrats of the Left, will do likewise in Lazio, although he says that, if elected, he will give up his seat; he is also competing to be mayor of Rome. His colleague Luciano Violante, ex-speaker of the lower house, had the same idea, until peer pressure forced him to test his campaigning skills in Turin, where the left is in trouble.

Ministers too are joining the PR lists. Enzo Bianco (interior), Salvatore Cardinale (telecoms) and Sergio Mattarella (defence), all from the centrist alliance within the government known as "the Daisy", all wanted to run in Sicily. But it has only two worthwhile spots on the list there. So Mr Mattarella was dispatched to Trentino, in the north, to the rage of his local party activists who took the matter to court.

Mr D'Alema's refusal to play this game went down badly in Rome. PR used to be the rule, until, in 1993, after a referendum, parliament passed a law that was intended to produce stable governing majorities by bringing in first-past-the-post, as in Britain and America, for 75% of the seats. The 25% left to PR was meant to aid small parties. But they still have to get at least 4% of the national vote. To help them, a device was invented: votes cast for a first-past-the-post winner do not count towards his party's total for PR purposes.

Alas, the big parties have decided to rig the system. They have invented for the PR count "decoy lists" of phoney parties to which, in theory, their candidates belong—in addition to their better-known affiliation. So if Mr A is elected, his real party, Party B, will not lose PR votes. That, the parties hope, will leave the PR seats—"parachutes", the public calls them—as life-savers for party members afraid of a hard landing if they jump into some constituency fray in their own names.

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The untouchables

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From The Economist print edition

The profits from organised crime are soaring, and its bosses are invulnerable. That is why so many top policemen want new laws, of the sort America used against its mafia

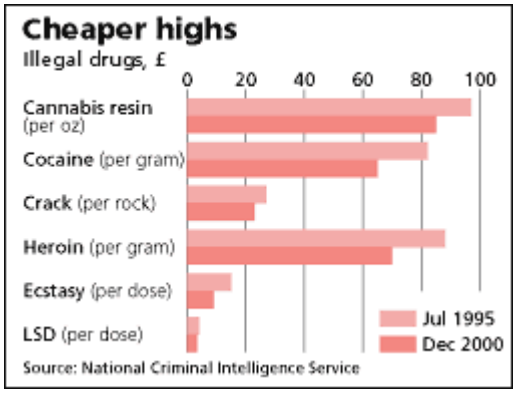
FOUR months ago, Tony Blair summoned the heads of Britain's intelligence and law-enforcement agencies to a meeting at Downing Street. The purpose of the unprecedented summit was to discuss the alarming growth in organised crime. All that resulted from the meeting, at least in public, was a bland statement that the government was determined to crack down on organised crime. But the threat is regarded as so serious that ministers are wondering whether to introduce a law like America's Racketeer Influenced Corrupt Organisations Act (RICO).

Aimed at those who engage in "a pattern of racketeering activity", RICO helped smash the New York mafia families in the 1980s. Bosses received long sentences for offences ranging from extortion to murder, after a surveillance operation involving 171 court-authorised wire-tapping and bugging operations monitored by hundreds of FBI agents. In its evidence to Lord Justice Auld, who is examining the case for criminal-law reform, the Association of Chief Police Officers (ACPO) is arguing that Britain should have something similar. ACPO is calling for a new, all-embracing conspiracy law, a prosecution right of appeal from court rulings, and better protection of intelligence. The law as it stands, says Sir David Phillips, chief constable of Kent, is "out of step" with the methods needed to tackle organised crime.

The targets of a RICO-style law would be a group of so-called super-criminals. Police chiefs say that, as the law stands, it is virtually impossible to convict these people. Part of the problem is that they distance themselves from the stuff that goes on in the streets. "They don't commit crimes themselves, they manage criminal enterprises," argues Sir David. He says that the number of untouchables is growing.

The director-general of the National Criminal Intelligence Service (NCIS), John Abbott, admits that there has been " a huge increase" in the reach of organised crime over the past decade. The NCIS's latest review, a classified document, says that the number of "core nominals"—officialese for top-rank criminals—has risen, on average, by a third every year for the past five years. There are around 150 of these top criminals. A group of around 750 lieutenants working for them are known as "current nominals". The Home Office estimates that, in all, about 1,000 organised criminal groups are operating in Britain.

Between them, they are making a lot of money. One reason is the steady growth in the market for drugs. The Office for National Statistics estimates that the illegal drugs market alone accounts for nearly 1% of national output, equivalent to £8.5 billion ($12 billion) a year. The profit margins are generous. Heroin can be bought in Pakistan for £850 a kilo and sold in Britain for £24,000. The falling street prices of drugs in Britain (see chart) suggest that more and more is being imported.



Criminals, feuding over profitable markets, are increasingly resorting to violence. The number of drug-related murders and kidnappings has risen sharply. More than 50 murders had links to organised crime in 1999, according to the police. Kidnap and blackmail are also on the increase. In the past three years, the number of such crimes, often linked to turf feuds over illegal drugs, increased four-fold, the NCIS says.

The growing trade in illegal immigrants is also helping the growth of organised crime. It is almost as profitable as importing hard drugs, and the penalties for being caught are lighter. The Home Office admits that the dozen gangs which control the trade have "infrastructures, communications and surveillance capabilities far in excess of anything that the law-enforcement agencies in transit and source countries can muster."

But bootlegging is the fastest-growing criminal activity of all, because of the increasing disparity between alcohol and tobacco taxes in Britain and Europe, and the ease with which the stuff can be imported. According to one chief constable, “There is not a housing estate in Britain where someone is not selling bootlegged cigarettes and spirits.” More than £2.5 billion is being lost in tax revenue each year from tobacco smuggling alone, nearly a third of the amount lawfully collected. Bootlegged sales now account for 80% of the domestic market in hand-rolling tobacco. The illegal tobacco trade is estimated to be worth more than £500m to criminals, big and small.

This trade used to be left to entrepreneurial individuals, the men in the white vans. But the bigger the business became, the more tempting it looked to organised crime. Now it is run by professional organisations using lorries, false documents and large warehouses.

Counterfeiting of credit cards is another useful earner. The association which represents the credit-card companies, APACS, says the involvement of organised crime led to “frightening losses” of more than £100m last year, double those of the previous year.

Many of the “core nominals” who control these criminal rackets have been under police surveillance for years. Few have been successfully prosecuted, because they keep their distance from the actual crimes. Even their key lieutenants are difficult to prosecute, according to the NCIS. Big trials of organised criminals all too often end in failure because of flaws in police procedures and failures to disclose surveillance evidence. Brian Doran and Kenneth Togher, described in court as “two of Britain’s biggest gangsters”, were freed last year after their 24-year sentences for importing 300 kilograms of cocaine were quashed. The Appeal Court ruled that information that the suspects’ hotel rooms had been bugged without authorisation had been improperly withheld.

PA

Togher and Doran got off

An unpublished Home Office research study supports the view of policemen that they are being outpaced by a new, highly professional breed of criminals. The author of the study, Michael Levi, professor of criminology at Cardiff University, says “there are significant areas of organised criminality that are effectively immune from prosecution.” His paper points out that, once criminals have acquired big business interests, it is almost impossible to tackle them effectively. The British judicial system aggravates the problem, he says, because it is “so poor at protecting sensitive information and sensitive techniques, as a result of the ever-growing pressure on judges to disclose.”

The biggest obstacle to convicting the “core nominals” is the ban on the use of evidence acquired by tapping telephones, known as wiretap evidence, in British courts. This is a curious anomaly, since evidence acquired by much more intrusive methods—bugging somebody’s house, for instance—can be used in court, and its consequences are serious. Without wiretap evidence, it is hard to connect the man who ordered a crime with the man who committed it. Unless and until this is changed, a RICO-style law would probably achieve very little.

The ban on wiretap evidence, confirmed by the Regulation of Investigatory Powers Act, passed last year, has undoubtedly resulted in major criminals escaping prosecution. One of Britain’s biggest heroin dealers, Curtis Warren, was subject to years of intensive surveillance by Merseyside police without being prosecuted. It was only when he unwisely moved to the Netherlands, in the mid-1990s, that he got jailed for 12 years, thanks to wiretap evidence.

Most other European countries, along with the United States and Canada, permit wiretap evidence to be used in court. Lord Lloyd of Berwick, who reviewed Britain’s anti-terrorist legislation in 1995, recommended that the government should follow their example. But the intelligence services are determined that wiretap evidence should not be disclosed. It seems that they do not want the extent of their surveillance networks to be revealed.

Until now, the police have gone along with this peculiarly British restriction. But, as organised crime grows, there are signs that attitudes may be changing. A senior police officer says, off the record, that wiretap evidence is bound eventually to be used in court, because it is by far the most effective way of tackling organised crime.

If wiretap evidence is to be made available, it will have to be used sensitively. At present, the law

demands details of the origins and pedigree of every piece of evidence. Some wiretap evidence is acquired by the intelligence services, in ways that they do not want the world to know about. If it is to be revealed, the rules on disclosure may have to be made more flexible. So be it. Wiretap evidence is a powerful weapon in the fight against organised crime, and the criminal justice system should be able to use it.

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Gomorrah-on-Thames

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From The Economist print edition

THERE is a rather superior town in Oxfordshire, Henley-on-Thames, that is famous for two things: a posher-than-thou Regatta at which public-school boys drink themselves silly on Pimms; and its MP, Michael Heseltine, a blond-maned Conservative widely credited with Margaret Thatcher's downfall. Last week Henley had a chance to acquire fame in a new area of life, and rejected it.

The business in question exemplifies many of the virtues Conservatives hold dear. It oils the wheels of international trade, by catering to business parties and city slickers. It enables its employees to haul themselves out of poverty by their garter straps, pay their way through university or subsidise their lowly public-sector incomes. It has been imported from America and it is booming, especially in London.

But the prospect of its appearance in Henley, says Tony Lane, the town's mayor, left the (somewhat elderly) residents aghast. Despite all the extra visitors it would bring, Mr Lane thinks this particular business would be happier elsewhere—in Reading, say, or Slough, grimier towns in the same general vicinity.

The offending industry is lap-dancing. A plan was mooted to stage an inaugural national lap-dancing championship in Henley in July, to coincide with the end of the Regatta. The organisers thought the town's infrastructure lent itself to just this sort of event; there was even talk of borrowing the Regatta's tents.

Despite protestations that lap-dancing is a misunderstood art, the level of outrage in Henley has obliged the promoters, NiteDance Entertainment, to think again. Residents fear hordes of libidinous oiks descending on their town—a misplaced anxiety, given the fact that, apart from anything else, the clientele needs plenty of spare £50 notes.

Peter Stringfellow, who first imported the subtly different art of table-dancing to London, and hopes soon to open an establishment in Paris, says he caters mainly to the "corporate male". Andrew Latham, Managing Director of SFI group, a publicly listed company which owns a string of clubs called For Your Eyes Only, points out that his clubs enforce strict rules, limiting the sort of liaisons clients can enjoy with performers.

But the good burghers of Henley were apparently beyond such reassurances. Pimms, yes; gyrating pelvises, no.

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Rebuilding London

Market forces

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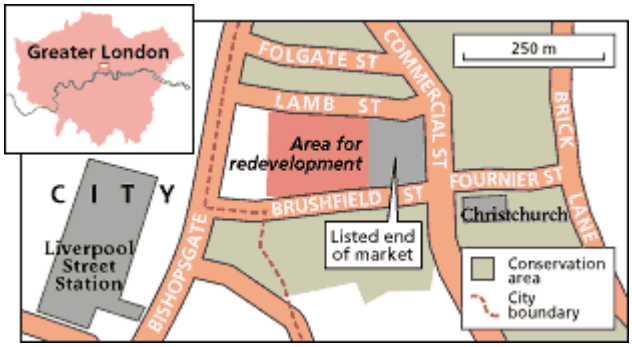
From The Economist print edition

Two versions of market economics are at war over the redevelopment of Spitalfields

ON THE eastern fringe of the City of London lies the old fruit and vegetable market of Spitalfields. Named after a 12th-century hospital for poor brothers of the order of St Augustine, the area used to be one of the seediest in the East End. Jack the Ripper's favourite watering-hole was opposite the north-east corner of the market. Successive waves of immigrants have set themselves up in Spitalfields, from the Huguenots who came from France in the 17th century and the Jews fleeing the pogroms of the 19th century to the Bangladeshis seeking jobs who settled in nearby Brick Lane in the later decades of the 20th century.

Given Spitalfields' large stock of elegant Georgian townhouses and its proximity to the money men of the City, it was only a matter of time before the area was rediscovered and smartened up. It has now happened. The distinctive green sheds of the largely Victorian market now stand in the middle of a conservation area, boasting the carefully restored houses of Fournier and Folgate Streets, beloved of the Georgian Society. And in the 1990s Spitalfields drew in artists and Internet entrepreneurs.



The influx of money into the area over the past 20 years, along with pressure for space in the City, has made the 120,000 square-foot (11,000 square-metre) site of Spitalfields market one of the most desirable in London. The eastern half of the market is on a preservation list, and cannot be demolished; but, since 1987, a development consortium called the Spitalfields Development Group (SDG), led by the market's owner, the Corporation of London, has been trying to build an office block in place of the western half of the market.

The fruit and vegetable market was relocated in 1991, and after that SDG must have thought that redevelopment was going to be straightforward. In the intervening years, however, the old market took on a new lease of life, at the centre of the revived Spitalfields. As a result, it has become the focus of two quite different visions of urban life.

After years of wrangling over the market's future, SDG may get the go-ahead to send in the bulldozers in the next few months. If it does not, the decision will have repercussions not only for the City of London but also for similar schemes throughout England.

SDG wants to redevelop the market as a 10-storey block loosely based on a design by Lord Foster, the grandest of British architects. The scheme would create some 96,000 square metres of office space. But a group of locals is struggling to persuade Tower Hamlets council, which has the power to grant or withhold planning permission, not to give the scheme the go-ahead.

Oddly, SDG is responsible for nurturing opposition to the plan. During the recession of the early 1990s, when nobody needed new offices, SDG encouraged a model of private-sector-led urban regeneration in the empty market. Itmoved a sports hall into the market, opened the "food-court", and leased the shops

to small businesses. As a result, the market became one of the most thriving indoor spaces in London. With about 400 stalls, it can attract up to 20,000 people on Sundays. It is this lively alternative hubbub that the locals now want to save from the developers who pioneered it.

Indeed, one of the principal opponents of the present redevelopment scheme used to work with SDG in reviving the market. William Taylor, a local vicar and long-time local resident, has nothing but praise for the vision of SDG in starting this local regeneration. But he is also realistic about the company's motivation: "In the end, developers are developers."

Mr Taylor is one of the leaders of the campaign to save the market, Spitalfields Market Under Threat, which, while taking ironic pleasure in its acronym, claims to represent a coalition of local groups, including the Spitalfields Small Business Association and the East London Mosque, where the many local Bangladeshis congregate. The old Georgian streets around the market also house some of the most determined conservationists in the country. The last thing they want is a ten-storey office block casting yet more shadow over the candlelit gloom of their period interiors.

Mr Taylor calls the market not a greenfield site or a brownfield site, but a "brightfield site", where people can associate informally and trade flexibly. As a student of history, he argues that this is just the place where the "little platoons" of Edmund Burke can gather. Mr Taylor reckons that, far from being against the capitalism of the City which is trying to demolish the market, places like Spitalfields should be allowed to flourish and to embed the market economy in local civil society. Spitalfields, says SMUT, is not a declining area ripe for demolition, but a nursery of small-scale capitalism. If the market is demolished, it will send out all the wrong signals to other local authorities looking at the uses of "brightfield sites".

All very nice, say the scheme's proponents, but a food-and-crafts market will not help London in its struggle to stop business slipping off to Frankfurt and other financial centres. Judith Salomon of the pressure-group London First argues that it is vital for the scheme to go ahead to ensure that the City retains its world-class status.

The high cost of office space in London is already deterring inward investors, and the large Spitalfields scheme would increase the supply of space and cut those costs. What is more, if it turns out that SDG's imaginative encouragement of the new market has scuppered its plans, nobody will invite in the craftsmen again. All eyes are now turned to see what Tower Hamlets council does.

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Bagehot

And now that you haven't voted...

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From The Economist print edition

WHEN Tony Blair's government made it known to the *Sun* newspaper that the general election expected on May 3rd was now going to take place on June 7th, a wail went up from Britain's political classes. All that would happen now, muttered the worldly-wise, was that the election campaign would last for eight miserable weeks instead of four. But they were wrong. They were, in fact, too optimistic. An extra month of campaigning would at least have had the merit of making politicians pay some attention to citizens. Instead, Britain has had to endure an extra month of speculation about the internal dispositions of the parties after the election—even though, as you may or may not have noticed, the election has neither yet been held nor formally announced.

This used to be a game that only Tories played. It made a sort of sense, for them. Since the Conservatives are a racing certainty to lose, their MPs have been chattering for some time—some of them have talked of little else since the last general election—about whether William Hague should be kept on as party leader after the next one. Bagehot had expected the Conservatives' instinct for self-preservation to silence this internal conversation for at least the final few weeks before polling day. But the party has instead turned the volume up. Newspapers were buffeted this week by a cacophony of stories reporting that Kenneth Clarke, the party's most prominent supporter of euro membership, intends to support a post-election leadership challenge by Michael Portillo, the shadow chancellor; and then by a cacophony of follow-up stories in which all of this was (more or less) denied. Lady Thatcher, of all people, is being called upon to stop the din. According to the *Daily Telegraph*, which is as often a participant in these manoeuvres as a reporter of them, the former prime minister is "livid" that her wayward party is apparently putting more energy into these post-election stratagems than into the business of fighting the election itself.

Perhaps she should relax. For it is not only the Conservatives whose attention has drifted lately from the big night to the morning after. A few weeks ago, it was a hanging offence inside New Labour to show a scintilla of complacency. Officially, this prohibition is still in place. To be seen to be taking re-election for granted, party managers believe, is to risk persuading voters that they do not need to turn out. But even Labour now hums with rumours about the shape of political life beyond the election. Some rumours are more reliable than others. You can file as "more reliable" the swathe of reports that David Blunkett, the education secretary, expects Tony Blair to reward him for a gold-star performance in the first term by making him home secretary in the second. Mr Blunkett did not go out of his way to quell this suggestion by saying cheerfully to a conference of querulous teachers last weekend that he was, alas, taking his leave of them. Rumours about the fate of John Prescott, the deputy prime minister, belong in the "less reliable" category. But they are no less intriguing for that.

Mr Prescott, whose formal responsibilities include roads (clogged), trains (late) and sorting out the funding of London's Underground (stuck in the courts), is not considered by all in the Labour Party to have been an outstanding success. His public standing has improved since Lord (Gus) Macdonald, a junior minister, took over many of his transport duties, but he is still accident-prone: he went to America this week promising to do battle on global warming and the Kyoto treaty, but seems to have found nobody of consequence available to listen to him. Moving Mr Prescott somewhere else after the election would allow Mr Blair to snap apart the super-ministry of environment, transport and the regions which he created expressly for his deputy in 1997, but which has turned out too big to handle. Where, though, would Mr Prescott go? One line of speculation (less reliable) has him moving to the Cabinet Office, with a mission to shore up Mr Blair's position in the parliamentary party, which, for reasons the speculators do not adequately explain, is expected to become dodgier in Labour's second term.

Another top cabinet minister whose star has waned during the first term is Robin Cook, the foreign secretary. Though capable enough, he is in the unhappy position of occupying a senior job from which he is unlikely to rise higher but which upwardly mobile colleagues lust after for themselves. Bagehot is excited to disclose private information suggesting that Mr Blair is tempted to solve this problem by moving Mr Cook into the House of Lords, where he would become Labour's leader in place of Lady (Margaret) Jay. This makes perfect sense, except perhaps in the eyes of Mr Cook himself, because

Labour would otherwise lack a political heavyweight at a time when the upper house is likely be embroiled in complex struggles, not least concerning its own future. You might therefore label this rumour “reliable”, except that, disconcertingly, the *Times* has reported with no less confidence that Mr Blair is being urged by Lord Irvine, the lord chancellor, to make Lord Macdonald into Labour’s leader in the Lords. Since even Mr Blair cannot have two leaders in the Lords, best change that to a “less reliable”.

In theory, newspaper people confused by the conflation of so many firm but mutually excluding rumours are entitled to turn for guidance to Alastair Campbell, the prime minister’s official spokesman. For fear of ridicule, your columnist has refrained from doing so. Apart from anything else, the difficulty is that Mr Campbell has once again become the story, not its teller. It is said (reliable) that he intends after the general election to slip out of the limelight, even if he stays on (less reliable) in Downing Street as a grey eminence (almost impossible to imagine). All will presumably become clear after the general election. Remember the election, anyone?

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Teachers

Hell's bells, it's conference time

Apr 19th 2001
From The Economist print edition

MOST people take Easter off and eat chocolate. Foot-and-mouth permitting, they then try and work the calories off with long constitutional walks. Not so the delegates and officers of the teachers' unions. They choose Easter to decamp to a damp seaside resort to lecture each other.

PA

Look how cross we are, Mr Blunkett

The annual teachers' conferences have become a byword for behaviour that would scarcely be tolerated in the classroom. Delegates especially enjoy the ritual taunting of visiting politicians. This year members of the National Union of Teachers (NUT), protesting at the shortage of teachers, chose the education secretary's speech to hold aloft placards declaring "We won't cover", a reference to suspended industrial action. As their target, David Blunkett, pointed out, it seemed a singularly futile protest to make to a blind person. He was also heckled throughout, despite his conciliatory speech and the achievements he listed. In exasperation, he broke off to say, "Hell's bells, if we can't celebrate that you might as well all go home. Honestly, this is really a silly, silly nonsense."

Apart from the timing of the conferences, the other mystery is why there are still so many of them. Teaching is now the only occupation still split into the arcane subdivisions that characterised the heyday of trade unionism. There are about ten unions, depending on how you want to count them, all with baffling acronyms. That allows delegates the liberty of denouncing other unions when they've finished chewing up and spitting out visiting politicians. So last week the NUT was at Cardiff, but the ATL was at Torquay, while the NAS-UWT was in Jersey. To say nothing of the PAT and the SHA.

All the television viewer (and parent) at home sees of these conferences is the heckling, booing and placard-waving. No wonder that the more moderate union leaders admit that the teachers have an image problem. Doug McAvoy, head of the NUT, said in his speech on April 18th that all the conference did was to show teachers "talk teaching down". He also urged them to start smiling instead of scowling.

This would be a start. But there is a problem of substance as well as of image. As Mr McAvoy and some of the other union leaders know only too well, conference delegates have become ever more unrepresentative of ordinary teachers. The problem was illustrated once again at the conference when left-wingers in the union won a demand to ballot the members of the NUT on a proposed boycott of plans to monitor teachers' success in meeting classroom targets. This is a key component of the government's performance-related pay (PRP) reforms. And, despite the NUT's opposition to PRP, 150,000 teachers have applied for the extra £2,000 a year which is on offer through PRP. The ballot will not only alienate those teachers, but will also bring the union back on to a collision course with the government.

Mr Blunkett denounced his conference critics as "a little group of Socialist workers". The fragmented union structure does indeed allow little groups to wield power out of all proportion to their numbers. Mr McAvoy is now in favour of amalgamating the unions into one big union. This would give the teachers a single, more powerful voice and would also marginalise the militants. Then teachers could stay at home at Easter, and eat chocolate, like normal people.

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Inequality

Just like the old days

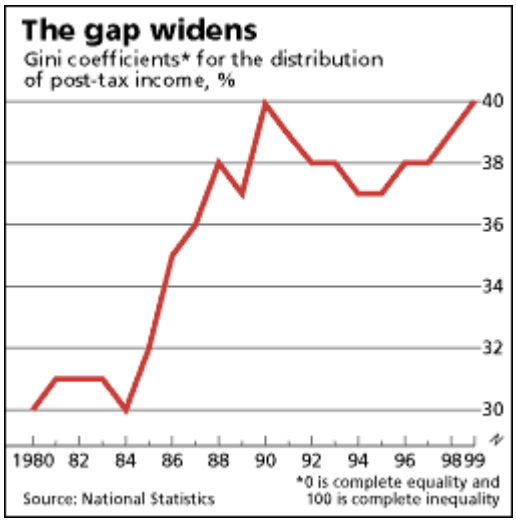
Apr 19th 2001
From The Economist print edition

New figures show that inequality of incomes is back up to the peak it reached in 1990, under the Conservatives

REDISTRIBUTION is not a word that figures in the public lexicon of New Labour, so the revelation that Britain has become a more unequal society under Labour should be no embarrassment. It is, however—because Gordon Brown, the chancellor of the exchequer, has discreetly been trying to do some redistributing.

New figures show that inequality of income after benefits and taxation rose again in Labour's third year in office, 1999-2000. The commonly used Gini coefficient that measures inequality has risen again to the level of its 1990 peak (see chart).

Another indicator, the ratio of disposable income at the 90th and 10th percentiles of income distribution, tells a similar story. This has risen from 4.4 in 1996-97, the Conservatives' last year in office, to 4.6 in 1999-2000, not far off its previous peak of 4.9 in 1990. Though modest in comparison with the sharp jump in the second half of the 1980s, the rise in inequality under Labour has essentially reversed the decline under John Major's Conservative government.



Inequality has increased largely because of the strength of the economy in which this government takes such pride. Although the fall in unemployment during a boom reduces inequality, other forces work in the opposite direction. The accelerating growth in wages since the mid-1990s has widened the gap between wage-earners and households that rely principally on benefits that rise with inflation. The buoyant economy has also fostered a widening dispersion in earnings, as rewards for the highest-paid have risen especially fast. At the same time, the share of income gained through self-employment has increased; and earnings from self-employment are more unequally distributed than employment income.

However, the government's tax policies also appear to have played their part in the widening of the income gap. The increase in inequality in 1999-2000 was driven principally by the increasing burden on poorer people of indirect taxation such as VAT and the "sin" duties on alcohol and tobacco. Indirect taxes on the poorest fifth of households rose by 1.6 percentage points of their pre-tax income. By contrast, the richest fifth of households paid half a percentage point less of their pre-tax income in indirect taxes in 1999-2000 compared with 1998-99.

The increase in inequality comes despite more generous benefits in 1999-2000. This, after all, was the financial year in which Labour escaped from the self-imposed constraint of sticking to Conservative spending plans. As part of the campaign against child poverty, Mr Brown greatly increased income support for households with poor children and also significantly raised the child benefit paid to all families. In October 1999, the working families' tax credit (WFTC) came into force, making in-work benefits to poor working families more generous. Poorer pensioners also got a helping hand with the introduction of the Minimum Income Guarantee (MIG), which raised income-support levels. "What this shows is the strength of underlying economic forces tending to increase inequality even in the face of progressive measures," says Andrew Dilnot, director of the Institute for Fiscal Studies.

The Treasury argues that the picture is likely to change as more of Mr Brown's measures take effect. For example, the full impact of the WFTC will be seen only in the income distribution figures for 2000-01. This year, 2m poorer pensioners will benefit from substantial increases in the MIG, which jumps by almost a fifth for single pensioners.

Such measures will undoubtedly help to stem the resurgence in inequality. On the other hand, unemployment is unlikely to fall much further and earnings growth will probably remain high in an already stretched labour market. The Labour government's record in its first three years shows that it is rowing against the same powerful tide that led to the sharp rise in inequality under the Conservatives in the 1980s.

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Anarchy

Mayday, Mayday

Apr 19th 2001
From The Economist print edition

The battle lines are forming for the annual punch-up between anarchy and the forces of capitalist oppression

POLITICIANS often bemoan the supposed apathy of contemporary youth. Yet, when youth stirs itself to protest, it is as likely to be abhorred as applauded. Thus it proved after a largely peaceful, eclectic May Day protest in London last year, during which a statue of Sir Winston Churchill was embellished with a Mohican haircut fashioned from turf. Tony Blair denounced this behaviour as "mindless thuggery", and the police were roundly criticised for permitting such sacrilege. They are determined to do better at similar demonstrations planned for May 1st this year.

Hey, guys, lighten up a little

Around 5,000 extra policemen will be on duty in the capital, and senior officers have promised "zero tolerance" of criminality. They are supported by London's mayor, "Red" Ken Livingstone. Although a fan of the sorts of causes that will animate the protesters—environmentalism, the eradication of global poverty, and animal rights—Mr Livingstone wants genuine activists to stay at home on May 1st.

He and the police are worried that peaceable protestors (known, in the trade, as "fluffies") will provide camouflage for violent ones ("spikies"), who could frighten the already scarce tourists and embarrass both the mayor and the government. The police estimate that around 1,000 serious troublemakers are likely to turn up.

Intelligence about the demonstrators' plans is not hard to come by. A well-publicised Internet site—www.maydaymonopoly.net—offers novice protesters advice on establishing a revolutionary cell, publicising its existence (top tip: enter a pub quiz with a team called Anti-Capitalists), and avoiding arrest (top tip: wear a disguise).

Anti-capitalism is the umbrella for a host of disparate causes, ranging from modern eco-war to old-fashioned anarchy. The proposed theme for this year's protests is Monopoly, the game that serves as an icon of capitalism. Hundreds of suggested targets for direct action on May 1st are listed on the website, grouped together at locations on the Monopoly board. Privatised utilities, financial institutions, government departments and gentlemen's clubs are especially (un)popular, though the list also includes the Savoy Hotel ("where rich and famous scum stay"), and Fortnum & Mason ("food for the obscenely rich").

As with the "guerrilla gardening" in Parliament Square last year, many of the stunts planned for May Day are essentially benign. They include a pigeon-feed in Trafalgar Square, by activists dressed as characters from the film "Mary Poppins", in defiance of a mayoral ban on seed-selling. Free veggie burgers will be distributed at King's Cross, and the day's expected climax is a mass attempt to pay with Monopoly money at shops in Oxford Circus. But the police fear that violence will erupt while they are distracted by these pranks.

Lurid tales have been circulating about foreign veterans of protests at Davos, Seattle and Prague invading London, and home-grown activists honing their skills in civil-disobedience boot camps abroad. On March 31st, police raided a disused factory in south London, which they say was being used as an anarchist training camp. Among others, a group called the Wombles is worrying the authorities. Its name recalls an epochal children's television programme, and also stands for "White Overalls Movement Building Libertarian Effective Struggles". The group is supposedly modelled on an Italian pro-Zapatista movement.

But an associate of the Wombles, who is also one of the architects of the Monopoly plan, insists that the group, and the plan, are peaceable. He argues that only the police and the media are promoting May Day as an opportunity for violence, and that more trouble occurs on an average Friday night in the West End than is likely on May 1st—though he adds ominously that “a shop window feels no pain.”

Of course, the police are right to take precautions, even if they end up looking foolish: big protests have a tendency to escalate into even bigger ones. But the ragbag anti-capitalists are probably too disorganised to create real havoc, or indeed to rank alongside the truly epoch-making protests that London has seen over the past few centuries. Farce is a likelier outcome than tragedy.

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Silicon Glen

When the chips are down

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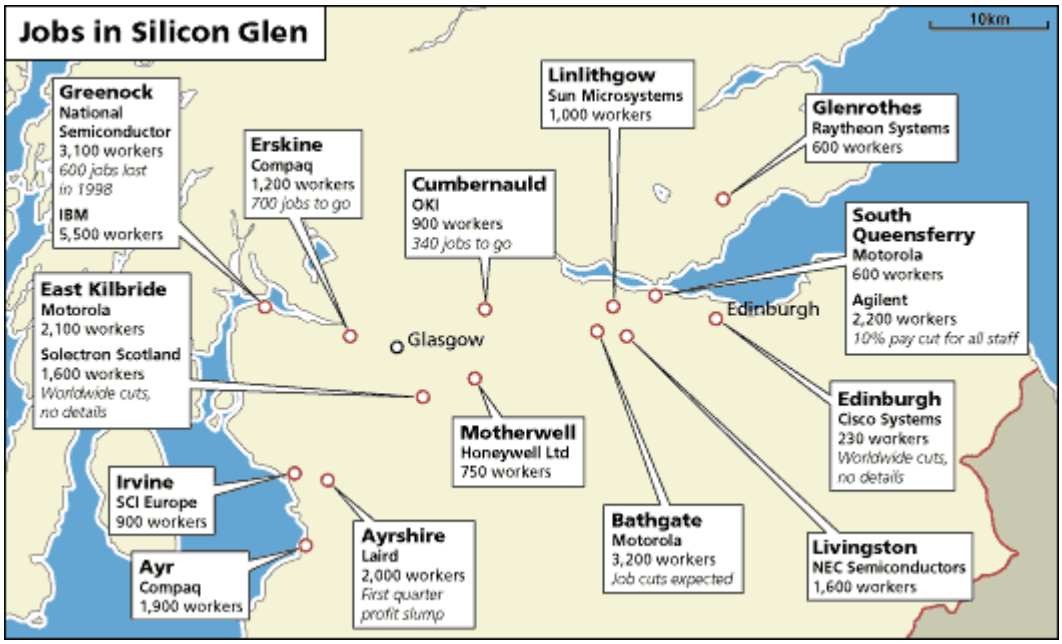
From The Economist print edition

Job losses among Scotland's electronics firms are rising, but the higher-tech businesses look less vulnerable



TEN years ago, ministers were constantly popping up in Scottish fields, announcing the imminent construction of a factory employing hundreds of locals in well-paid electronics jobs. "Silicon Glen", stretching across the Scottish lowlands, was a model for modern times, an area of declining coal and steel-based industry transformed into a cluster of smart factories serving the new economy. But now that Tony Blair has to get on the phone to plead with the boss of Motorola, a big American electronics firm, not to sack lots of its Scottish employees, things do not look quite so bright.

Motorola is preparing to tell 3,200 workers who make mobile phones at a factory in Bathgate how many of them are to lose their jobs. Anything from half to all of the jobs could go. The cuts are part of the 22,000 ejections planned from the company's 140,000-strong global workforce. A month ago Compaq, a big American computer maker, said it was firing 700 of its 3,100 workers. The downturn is being felt in other ways, too: Agilent has asked its 2,200 employees at South Queensferry to take a 10% pay cut. A survey by the Scottish Chambers of Commerce published on April 18th showed rising fears among manufacturers that falling sales will mean more job losses.

Electronics now employs about 60,000 Scots, and accounts for a quarter of Scottish manufacturing and half of the country's exports by value. Scottish factories are reckoned to make just under 30% of the personal computers and laptops sold in the EU.

The good thing about the electronics business is that it has grown fast over the past decade. The bad thing is that it is volatile. Demand for mobile phones turns out to be lower than most people had expected, which is one reason Motorola is cutting jobs.

Scotland is suffering more than most places. Some of Silicon Glen's output is low-value assembly-line production, which Scotland imported by subsidising foreign investment to get its electronics industry off the ground. Such work can now be done more cheaply elsewhere. Compaq is shedding Scottish jobs because it is moving computer-assembly work to the Czech Republic.

Fortunately, Scotland's industry is now moving upmarket. IBM's factory at Greenock, for instance, one of the first foreign arrivals and the biggest single employer, now does little mass assembly work, concentrating on selling tailor-made computer systems and providing back-up service work.

Scottish Enterprise, an economic development agency, recognised the need to get higher-value-added work into Scotland some time ago. In 1997, it persuaded Cadence Design Systems, an American chip designer, to build a centre at Livingston to design chips which contain complete computer systems. There are now several other companies doing similar work in the Alba centre, as this complex is called. Four Scottish universities have set up an institute to produce the graduates the centre needs.

Another potential investor is Motorola, which recently announced that it was going to spend £20m on setting up a research base which may eventually employ 500 people. Motorola has also taken over a factory near Dunfermline abandoned by Hyundai, a Korean chip-maker, where it intends to make the next generation of semiconductors.

Scottish ministers are trying to persuade Motorola to make a virtue out of this concentration of activity. They reckon that Motorola could use the Alba centre, with its high-tech expertise, to convert the phone factory to make new electronic devices using, for example, voice-recognition technology. But EU rules mean that little in the way of subsidy can be handed out, and Motorola is under a lot of pressure to save money.

Scotland is handicapped in its bid for this higher-value-added work. It does not have enough people with the necessary skills. That is why Wendy Alexander, enterprise minister in the Scottish Executive, has decided to shift her training budgets away from training the unemployed towards giving better skills to those already in work. Scotland's electronics industry rescued its economy. Now it needs to use its education system to rescue its electronics industry.

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Hopeless in Gaza

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From The Economist print edition

Despite America's intervention, the fear is that neither Israelis nor Palestinians have much interest in anything but fighting

EPA

WITHOUT ceremony, the United States stepped in on April 18th to ease the latest escalation between Israel and the Palestinians. The Americans virtually ordered Israel to withdraw its troops from positions they had taken in Palestinian-held Gaza the night before. Colin Powell, the secretary of state, called the Israeli incursion excessive and disproportionate. He softened the slight to Israeli pride by blaming the Palestinians for having triggered this particular twist in the spiral of violence. Huffily, Ariel Sharon, Israel's prime minister, claimed that he had instructed the army to pull back before Mr Powell had delivered his rebuke.

Nonetheless, the Palestinians were well satisfied with Israel's apparent buckling to American pressure. "The American government now understands it has to take an active role, because if a firm government doesn't stand up to the Sharon government, it will make more and more war," said the Palestinian Authority's cabinet secretary, Ahmed Abdul Rahman, on April 17th.

That realisation, if it has really dawned in Washington, comes not a moment too soon. The latest trouble began on the night of April 16th, when Israeli warplanes bombed a Syrian radar installation deep inside Lebanon (see article). This followed firing by Hizbullah at Israeli troops across the border. "There are new game rules now," Israel's minister of defence, Binyamin Ben-Eliezer, explained.

The next afternoon, a salvo of 82mm mortar bombs hit the sleepy little Israeli town of Sderot, which is only four kilometres (2 1/2 miles) from the northern tip of the Gaza strip. There were no injuries, but retaliation was inevitable even if the Israeli prime minister had been someone other than Mr Sharon, who was leading retaliatory raids into Gaza nearly 50 years ago (and fibbing about them later). Within hours, tanks, missile boats and helicopter gunships were pounding buildings throughout the strip belonging to the Palestinian Authority's military and police units. It was the heaviest bombardment in seven months of *intifada*.

Tanks, bulldozers and infantry then rolled across the Gaza border at several points, cutting the strip into three. The troops spent April 17th flattening olive groves and digging in around Beit Hanoun, the northernmost Palestinian town. A brigadier said they might be there "for days, weeks or even months". Later that night, the soldiers headed back across the border. Palestinian mortar fire continued as before.

Israel's entry into Palestinian-controlled "Area A" territory seemed to put the last nails into the coffin of the suspended Oslo peace process. In Hebron, the Jewish settlers redoubled their pressure on the government and the army to reoccupy the Abu Sneineh quarter, from where Palestinian snipers have fired on to the small Jewish enclave. "The Palestinians want to provoke us into this," said Daliah Rabin-Pelosoff, the deputy minister of defence and the daughter of Yitzhak Rabin. "But Sharon is standing fast."

This loyal praise from Ms Rabin for the prime minister's moderation reflects the public mood. Hauntingly resembling her murdered father, she is something of an icon for the peace camp. But the peace camp is at war now, side by side with those it has long excoriated as warmongers. Yossi Beilin, the leading Labour dove, has spoken passionately in support of the decision to bomb the Syrians. And the incursion into Gaza has drawn scant criticism beyond the Arab factions in the Knesset.

By the same token, there is not much pressure on Mr Sharon from within his government to respond to the Jordanian-Egyptian initiative that has been in the air for the past month: Israeli withdrawal from Palestinian civilian areas, a resumption of security co-operation, political talks for a year on issues such as Jerusalem, and a complete freeze on the building of Israeli settlements in the West Bank and Gaza. Unsurprisingly, Yasser Arafat has already agreed to this.

Jordan's foreign minister, Abdulilah Khatib, peddled the proposal in Jerusalem this week, but predictably got short shrift from Mr Sharon. Shimon Peres, the foreign minister and Labour elder statesman, suggested that the plan was "worth examining". But he and his party were clearly in no mood to make an issue of it.

That is where some energetic American involvement could make a difference. The doves in Israel are passive and dispirited, but imaginative American diplomacy could spur them to nudge the government back to the negotiating table. Mr Sharon, for his part, reminded everyone this week that, if negotiations do get going again, he will not be offering much. In an interview in *Ha'aretz*, he said he would accept—once the hostilities end—a Palestinian state on 42% of the territories, "or perhaps a little bit more", in return for a non-belligerency pact of indefinite duration. What of permanent peace? He frankly did not see it as a realistic goal.

As for Mr Arafat, he is due in Damascus next week for talks with President Bashar Assad of Syria. After the coldness between Mr Arafat and Mr Assad's father, Palestinians are seeing this as a genuine thaw. Nationalists from Mr Arafat's Fatah movement view it as a chance to build a united Arab front against Israel. The Islamists from Hamas and Islamic Jihad see openings for greater military co-ordination with the guerrillas of Hizbullah. Mr Arafat will almost certainly want both messages to be received.

The Palestinian leader is once again holding an olive branch and a gun. But he is also signalling—to the Americans above all—that it is Mr Sharon's decision as much as his as to which "falls first from my hands".

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Human rights

Chickens and foxes

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LOOKING at this year's membership of the UN's Human-Rights Commission, Reed Brody, who works for Human Rights Watch, a lobby group, concluded that the foxes were guarding the chicken coop. The commission, whose members are drawn from 53 governments, is holding its six-week annual session in Geneva, ending on April 27th. It is a huge assembly, with 3,000 delegates. Each country serves a three-year term until it is replaced by another elected by states in its region. Of this year's new intake of 14, Human Rights Watch singles out Algeria, Congo, Kenya, Libya, Saudi Arabia, Syria and Vietnam as "abusive governments".

The commission's job is to establish standards and take stock of shortcomings. It passes resolutions and appoints special rapporteurs on particular issues or countries. But it relies on majority voting, and governments tend to club together to defend their mutual self-interest, especially when they have a record of brutality that is criticised by non-governmental organisations (NGOs) or by western governments.

A self-styled "like-minded" group of countries, mainly from South-East Asia but including China, Cuba, Algeria and Sudan, reject this sort of finger-pointing. They would like to curb the number of NGOs—at present around 200—that lobby in the corridors and air their views to the commission. When western governments talk about civil and political rights, their Asian and other counterparts respond with talk of economic and social rights. The UN's institutions, however, already do plenty in that field.

Voting, which got under way on April 18th, is largely predictable. American-sponsored resolutions on China are thrown out every year, and the situation in Israeli-occupied territory has been condemned regularly since 1970 to no effect. European countries hesitate to be tough on Chechnya, though everyone keeps a stern eye on Afghanistan. The most powerful countries offer business deals, or help with a seat on the Security Council, in exchange for a vote.

The commission pays little heed to the 35 experts it appoints. A former investigator still smarts about the way his warnings on Rwanda were ignored before the 1994 genocide. Emergency sessions over the past few years on Bosnia, Kosovo, Rwanda and Palestine have done little to revive confidence in the commission as a body that can provide early warning. Nor has the commission any means of enforcing its recommendations.

Yet governments, which on the surface appear impervious to shame, spend a remarkable amount of money and energy trying to ward off criticism, even when it is kept under the wraps of the commission's special confidential procedure. Beneath their defensive bluster, they are also starting to use the system they object to. This year, Algeria has publicly criticised human-rights shortcomings in Europe, and China has produced a pamphlet on violations in the United States.

Although the commission puts up a poor performance as the practical embodiment of the "conscience of humanity"—which Mary Robinson, the high commissioner for human rights, believes it should be—hope, and the lack of an alternative, still prompt victims to take the risk of going to Geneva. Publicity can be as damaging to the perpetrator as a formal resolution. And some of the diplomats now sitting round the table were once political victims who looked towards Geneva for support and attention.

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Slave-ships in the 21st century?

Apr 19th 2001
From The Economist print edition

IT TURNED out to be largely a false alarm. Short of news over the Easter break, editors turned their attention to a rusting freighter chugging around the Bight of Benin allegedly with 250 child slaves on board. The boat, the Nigerian-registered *MV Etireno*, had left Cotonou, Benin's capital, on March 30th and had been turned away by Cameroon and Gabon. Since the boat was at sea, the story was uncheckable. Some speculated that the captain might have thrown the children to the sharks. When it eventually returned to Cotonou on April 17th, the boat was found to contain few children but 139 adult passengers, most of whom were desperately seeking jobs in west Africa outside poor Benin.

Child slavery is indeed common in west Africa. Thousands of children are also exported from the region, some to work in the Middle East and Europe as unpaid labourers or for sexual exploitation. Poverty is the cause. The daily wage in rural areas of west Africa is $1 a day. The poor easily get into debt, and some are willing to give up their children for a few dollars. Hence the supply. The demand is created by richer west Africans who want domestic servants and garden workers. Cocoa and cotton farmers need labour. But they are not always willing to pay.

In Africa children are generally treated as mini-adults; from an early age every child will have tasks to perform in the home, such as sweeping or fetching water. It is also common to see children working in shops or on the streets. Poor families will often send a child to a richer relation as a housemaid or houseboy, in the hope that he will get an education. Sometimes the rich relations provide for and treat the child as one of their own, but sometimes the child ends up as little more than a domestic slave. When such children grow up, they may be thrown on to the streets and turn to prostitution to survive.

Poor families who get into debt will traditionally lend a child to the debtor as a bond or to work their way out of the debt. Getting out of debt is difficult, so the children often get sold on. That is where slavery turns from a domestic arrangement into a commercial market. Middlemen buy from parents, or persuade them that the children will be sent to school or get well-paid jobs. Sometimes the children are simply kidnapped. These children, like the ones supposedly on the *MV Etireno*, are sent across borders, often from poor countries like Mali or Benin to richer ones like Côte d'Ivoire. There they work unpaid on farms or plantations, beaten if they try to run away or forced into prostitution or drug-pushing.

There are no accurate figures, partly because there is no clear definition of slavery, especially for children. The International Labour Organisation says that 250m children between the ages of five and 14 work as slaves, mainly in Asia and Africa. Figures for west Africa are particularly elusive, but thousands of child soldiers have been easily recruited in civil wars in Sierra Leone and Liberia.

Only 20 African countries out of 53 have ratified a UN convention aimed at eliminating the worst forms of child labour. Even where governments have ratified it, petty officials can be bribed to turn a blind eye. In such countries, freeing child slaves and giving them a home and education would be almost impossible.

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Lebanon and Syria

The curse of strong friends

Apr 19th 2001 | BEIRUT
From The Economist print edition

Syria's armed presence in Lebanon gets daily less tolerable to most Lebanese

Get article background

EPA

A blot on Beirut

THE Lebanese are a resilient bunch. After 15 years of civil war, two decades of Israeli troops in the south and 25 years of Syrian domination, they have just about stitched a coherent country together. Unfortunately, events keep pulling it apart again.

This week Hizbullah guerrillas killed an Israeli soldier at Shabaa Farms, a remote enclave on the Israeli-occupied Golan Heights that Lebanon says Israel should have returned. Israel's answer was to rocket a Syrian radar post on the Beirut-Damascus highway. This was the first direct Israeli attack on a Syrian target in Lebanon since 1996, and a marked escalation from Israel's usual tit-for-tat exchanges with Hizbullah.

To most Lebanese, the air strike was an unneeded reminder of the price they pay for playing host to a 30,000-strong Syrian "protection" force. To the Syrians, it was a nasty warning of how badly, without the Soviet help they used to get, they are outgunned by Israel. Syrian officials expressed outrage and vowed revenge, but the state-controlled press played the incident down. Most Syrians are in no mood to take on Mr Sharon. Instead, Syria's armed forces turned on their own: Mustafa Tlas, the defence minister, criticised Syria's pro-democracy dissidents, accusing them of undermining national unity and thus serving Israel.

Syria's press likes to paint Hizbullah as an independent resistance movement. The tightly disciplined militia, drawn from the third of Lebanese who are Shias, certainly has its own gripes against Israel, which continues to hold more than a dozen of its members hostage. And Israel has been furious with Hizbullah since it captured four Israelis last year. Everyone knows, however, that the militia relies on Syria to let through supplies from fellow-Shias in Iran. In exchange, Hizbullah keeps the border hot to show that, so long as Israel remains in occupation of Syria's Golan Heights, it will have unfinished business there.

After their country's civil war, nearly all of Lebanon's many factions put away their guns. The exception was Hizbullah, which said it was still fighting to chase out invaders. Since Israel's retreat, only the simmering Shabaa Farms dispute has justified Hizbullah's continued resort to arms. Most Lebanese, however patriotic, see these few hundred acres of orchards as a flimsy excuse for exposing their country to Israel's wrath, especially since the United Nations has decreed that the area is Syrian, not Lebanese. Now that Israel is out, the average Lebanese wants the Syrians out, too.

Until recently, few were willing to say so. Syria plays Lebanon with a far lighter touch than the Israelis. The Arab neighbours are bound by language, culture, kinship and history. When it first deployed its troops there, in 1976, Syria's army came by invitation from Christian warlords who were losing the first round of the civil war. In 1989, the war ended after Syria crushed a Christian uprising.

The Lebanese sense of debt for these services, and for providing security during the past decade of reconstruction, was one reason for staying quiet. Capital flying from Syria's muddled socialist economy also props up Lebanon's vital banking industry. More important, there was a fear that raising the issue of the Syrian presence would blow the old sectarian schisms open.

Shia leaders welcome the Syrians because of their shared enmity to Israel, and because Syria's influence has helped to curtail the Christians' historic dominance. Lebanon's 300,000 disfranchised Palestinians also see eye-to-eye with Damascus. The Druze minority was an ally of Syria for most of the civil war, and much of the Sunni Muslim business class has close Syrian ties. So do some Christians.

However, the vast majority of Lebanon's 1m-odd Christians, who are unabashedly westernised and relatively rich, have long chafed under the tutelage of what they see as a grubby, grasping neighbour. They resent the slovenly Syrian checkpoints that still dot the country, as well as their own government for steering a foreign-policy course set in Damascus. They begrudge the fact that, whereas their own militias have been neutered, Hizbullah roams freely. And they bemoan Hizbullah's effect on business.

As the economy has begun to list ever more sharply in the past three years, anti-Syrian feeling has spread across the subtle boundaries between Lebanon's 18 religious sects. Farmers say their market is being wrecked by uncontrolled imports of cheap Syrian produce. Working-class Lebanese complain about the influx of some 250,000 Syrian labourers. Businessmen blame Syria for pervasive corruption.

Still, it came as a surprise last September when the normally reticent Maronite patriarch, Nasrallah Sfeir, launched a broadside against the Syrian presence. Eyebrows rose further when the leading Druze chieftain, Walid Jumblatt, called for a pullback of Syrian troops. Since then there has been a flurry of attempts to "mediate" between Syria and its critics.

An accumulation of petty communal clashes has revived memories of the lead-up to the civil war. But the question in Lebanese minds is not whether the country's factions will start killing each other again. All realise that the economy is too fragile to sustain more killing. All know that after ten years of salesmanship to lure investment, there is no one left to bail out Lebanon if it starts to sink. They wonder whether their neighbours will ever leave them alone, and whether their own government will ever have the guts to take the helm.

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Drugs, war and democracy

Apr 19th 2001
From The Economist print edition

The world's demand for drugs has given new fuel to old conflicts in Colombia. Establishing democratic order will take time, and outside help, writes Michael Reid

IT IS a country with many qualities. Though only the fifth-largest in Latin America by area, Colombia is the third-largest by population (with 41m people), and the second (after Brazil) in biodiversity. More of its women work outside the home than elsewhere in Latin America. It is the world's second-biggest supplier of coffee and of cut flowers. For much of the past century, Colombia was a rare model of Latin American economic stability and success. Between 1945 and 1995, its economy grew at an annual average rate of almost 5%. It was one of the few countries in the region to enjoy an investment-grade credit rating. Among foreign businessmen, it came to be known as Latin America's best-kept secret.

AP

Can President Pastrana make peace?

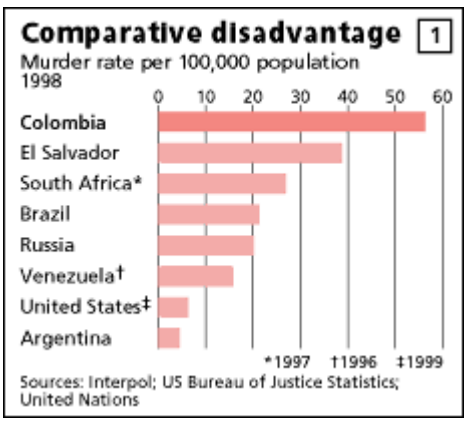
Colombia also claims to be the region's oldest democracy (though that requires some qualification), and it takes its culture seriously. Not only does it have a living Nobel-prize-winning novelist in Gabriel Garcia Marquez, but its cities are teeming with bookshops, and its exports of books exceed those of any other Latin American country. Colombian-born Fernando Botero is perhaps Latin America's greatest living visual artist.

But nowadays Colombia has become associated with less attractive features: the prevalence of illegal drugs, and the violent disorder of its guerrillas and paramilitary bands. For the past two decades, Colombia has been the world's main supplier of cocaine. Its role in this industry was originally that of an entrepôt. It would import the coca (whose leaves provide the raw material for the drug) in semi-processed form from Peru and Bolivia, where most of it was grown, and re-export it as refined cocaine to the United States and Europe. But in the 1990s, coca growing became concentrated in Colombia.

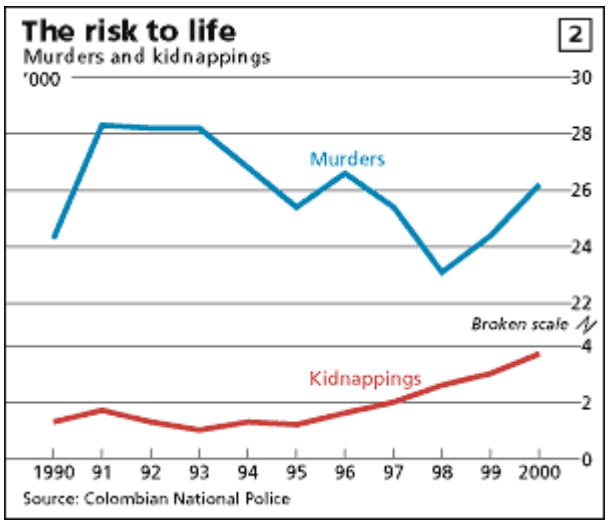
The country's central role in the illegal-drug business has fuelled a wider breakdown in public order. Violence in Colombia is not new, but it has taken on new forms. The drug gangs have turned a generation of unemployed urban youths into *sicarios*, or hired killers. At the same time, the drug business has supplied finance, and given new military strength, to three irregular armies: on the left, the guerrillas of the Revolutionary Armed Forces of Colombia (FARC) and the smaller National Liberation Army (ELN); and on the right, bands of paramilitary vigilantes, most of whom are organised in the United Self-Defence Forces of Colombia (AUC).

Conflict between the guerrillas and the security forces, which enjoy the unofficial (and increasingly unwelcome) support of the paramilitaries, began four decades ago, but it has recently become more intense. The number of civilian casualties is rising. The government's writ now runs over only about half of this vast country—though that half includes the cities, where most Colombians live.

The statistics of violent death in Colombia are shrouded in confusion, some of it deliberate. The murder rate climbed steadily in the 1980s; it then remained broadly constant during the 1990s. In proportion to the population, it is the world's highest (see charts 1 and 2).



According to the Defence Ministry, there were 1,777 deaths in combat last year. But the Colombian Commission of Jurists (CCJ), a human-rights group, says that in all, 6,067 people were killed as a result of "socio-political violence" in the 12 months to September 2000—an increase of almost 50% compared with the previous 12 months. The security forces' traditionally poor human-rights record has improved. But the CCJ identifies the paramilitaries as the authors of 49% of the non-combat killings, with the guerrillas responsible for 11%.



All the armed groups target civilians who are held to be “collaborators” with rivals. The paramilitaries do this with particular savagery: their massacres of civilians are aimed at “cleansing” territory. Over the past five years, some 1m Colombians are thought to have fled to the cities to escape rural violence. Last year, the International Committee of the Red Cross gave emergency aid to 130,000 such “displaced people”.

The paramilitaries’ raison d’être, they say, is the state’s failure to provide security against kidnapping and extortion by the guerrillas. In kidnaps, too, Colombia is the world leader. Last year the police recorded 3,707 kidnaps, or roughly ten every day, well over treble the number in 1996. The guerrillas were responsible for about 60% of these, according to the defence ministry. Some kidnap victims are rich, but many are merely not poor. Some are seized at impromptu roadblocks; some are children.

To make matters worse, the economy no longer seems immune to the insecurity of everyday life. In 1999 Colombia suffered a steep recession: GDP shrank by 4.5%. A tentative recovery is now under way, but unemployment stands at 20%. Until security improves, investment may be held back.

In search of safety and better economic prospects, record numbers of Colombians are leaving their country for the United States, Venezuela, Ecuador and Central America. According to ANIF, an economic think-tank in Bogota, 1m Colombians have moved abroad since 1996.

To add to the gloom, Colombians are disillusioned with their political leaders. The guerrillas have little public support; the paramilitaries have only slightly more, though approval of them is growing. But democratic politics has become tarnished not just by the apparent helplessness of government in the face of the country’s problems, but also by rising corruption in public life.

In 1998, Colombians elected as their president Andres Pastrana, a Conservative former television news anchorman from a prominent political family. Faced with a dispiriting panorama, Mr Pastrana took two big steps. The first was to begin peace talks with the FARC. The second was to start repairing Colombia’s relations with the United States, which had suffered under his predecessor, Ernesto Samper.

The peace talks have moved slowly, but Mr Pastrana’s second initiative has been more successful. In Washington, drug fighters were fretting over the surge in coca cultivation. Policy buffs were alarmed that Colombia—strategically located between the Panama Canal and Venezuela’s oilfields—was deteriorating into a “failed state”, which in turn could endanger the weak democracies of its Andean neighbours.

Uncle Sam steps in

Their answer was Plan Colombia, drawn up jointly by Colombian and American officials and launched by Mr Pastrana in September 1999. It is officially designated as “a plan for peace, prosperity and the strengthening of the state”. It is meant to involve an investment of $7.5 billion over three years, including $4 billion from Colombia itself.

But Plan Colombia has a hard core. Last year the United States granted Colombia $1.3 billion in emergency aid, to be spent over two years. Most of this is military aid, but it includes $81m for schemes to wean farmers off coca, as well as $122m for human rights and for the judiciary. It was approved with strong bipartisan support in America’s Congress, and comes on top of an annual aid programme of some

$330m, most of it for fighting drugs. This makes Colombia the biggest recipient of American aid anywhere outside the Middle East.

The Clinton administration insisted that the military aid was to fight drugs, not guerrillas—but that by cutting the flow of drug money to the insurgents, it would force them to take the peace talks seriously. That is a distinction the Bush administration may blur.

Plan Colombia has been controversial from the start. Polls show that most Colombians welcome American aid, though they may disagree on the details. But neighbours, especially Ecuador, are nervous, fearing overspill from an intensified war. The presence of American military advisers in a foreign jungle conjures up memories of Vietnam. Human-rights groups note the history of brutality in Colombia's armed forces, as well as links between some military officers and the paramilitaries.

Some critics ascribe Colombia's difficulties mainly to what they consider to be the failings of its democracy, and see the guerrillas as the product of political exclusion and socio-economic injustice. Others, especially in Europe, claim to favour more "social investment" rather than military aid—but the European Union has so far offered only a modest $100m in aid to Colombia, though Spain has also offered a similar sum.

According to a second set of critics, Plan Colombia's military aid is too narrowly focused on the United States' war against illegal drugs rather than on Colombia's own problems. Two decades of repression of the drug industry in the Andean countries have failed to make a dent in its overall output. These critics fear that Plan Colombia may simply move coca cultivation to other parts of Colombia, or to neighbouring countries. They think that foreign aid should instead be concentrated on strengthening Colombia's democratic state across the board. A recent joint report by the Council on Foreign Relations and the Inter-American Dialogue, two American foreign-policy think-tanks, concluded that: "The core problem has to do with state authority, the inability of the government to protect its citizens. In seeking to strengthen the capacity of Colombia's security forces, more emphasis should be placed on professionalisation and training than on supplying equipment to fight drugs."

It is true that Colombia's problems have been hugely aggravated by drugs, which in turn have flourished in the country's atmosphere of general lawlessness. Since the rich countries that are the world's main consumers of cocaine show no sign of depriving the drug gangs of their vast profits by legalising the stuff, they have a responsibility to help the country that has suffered most from their habit.

But mending Colombia goes beyond trying to tackle the drug trade. It means dealing with three other problems: public insecurity, lack of economic confidence and political cynicism. That requires an understanding of how Colombia got into its current mess—not least because Colombians' perception of the present is shaped by myths about their past.

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A country apart

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Geography and history have created a weak, inward-looking state

OF ALL the countries in Latin America, Colombia is “the least studied and perhaps the least understood (by outsiders)”, according to David Bushnell, an American historian. That may be, as Mr Bushnell suggests, because Colombia defies many regional patterns. It was spared the pendulum swings between military dictatorships and unstable civilian governments, or between economic liberalism and populism, that most of its Andean neighbours suffered in the 20th century.

Victims of *la violencia*

Colombia’s armed forces have always been relatively weak, and distrusted by the civilian elite. Nor has the country had strong socialist or populist parties. Instead, apart from one four-year interlude of (mild) military rule in the 1950s, Colombia since the mid-19th century has been ruled by only two parties, the Liberals and the Conservatives. Economic policy relied on political consensus and evolutionary change. That made Colombia an exception to the Latin American pattern of boom-bust volatility.

What makes Colombia so different from its neighbours? A geography that is difficult even by Latin American standards predisposed the country towards introversion, regionalism and a weak central state. In southern Colombia, the Andes break into three chains, splaying out towards Panama, the Caribbean coast and Venezuela respectively. The highland valleys and tablelands, where most of the population lives, are separated from each other by the tropical valleys of the Magdalena and Cauca rivers. The Pacific littoral is clothed in dense rainforest, much of the Caribbean one backed by swamps or semi-desert. To the south-east of the Andean chains, almost half of the country is occupied by the tropical lowlands of the *llanos*.

Even today, transport is difficult. Take, for example, Medellin, Colombia's second city and the home of much of its manufacturing industry. It is six hours from the sea in the Gulf of Uraba, which lacks a deep-water port, along a road often blocked by guerrillas. Many of its exports, therefore, make a 15-hour journey by truck to Cartagena. Bogota, the capital and now the main business centre, is even further from the sea. No wonder that air transport has long been important in Colombia, which boasts the world's second-oldest scheduled airline.

Colombia's political history is marked by the conjunction of legalism and lawlessness. In a country of many internal frontiers, frontier "justice" flourished. "Our penal system is full of checks against tyranny, but is lax on crime," says Luis Fernando Ramirez, the defence minister.

The anti-militarism of the political elite was reinforced by the war of independence. Although Simon Bolivar and his fellow Venezuelan generals had played a big part in freeing Colombia from Spain, they came to be resented in Bogota. Bolivar favoured an Andean confederation, but also strong central government. He was opposed by Colombia's Francisco de Paula Santander, a soldier too, but one who had studied law.

The Liberal Party descended from Santander's supporters; it was federalist and anti-clerical. The Conservatives, more loosely, claim descent from Bolivar. The two parties fought periodic civil wars, ostensibly over how Colombia should be governed, but in reality for power. They became perhaps the only truly national institutions. Both were socially mixed. Although their ideological differences waned, party loyalty remained fierce; it was passed on within villages and families.

Colombia's emerging political stability was shattered in 1948, when Jorge Eliecer Gaitan, a populist Liberal, was assassinated in a Bogota street. The ensuing riots and subsequent feuding between supporters of the two parties developed into a rural civil war, fuelled partly by land disputes. In a decade of bloodletting and guerrilla warfare known as *la violencia*, between 100,000 and 200,000 died.

That national trauma marked the subsequent half-century. It led to military government, followed by formal power-sharing. In an arrangement known as the National Front, the two parties agreed in 1958 to alternate in the presidency for 16 years, and to divide ministerial jobs and Congress seats between them. The front commanded widespread support and restored peace and stability. But it stored up problems.

First, it was undemocratic. Governments imposed an almost permanent state of emergency. This had "almost no meaning in everyday life", according to Malcolm Deas, a historian at St Antony's College, Oxford; but it allowed opponents to argue that political competition was blocked and civil liberty

curtailed, and that they should take up arms. In 1964, the FARC was founded by Communist guerrillas left over from *la violencia*. A year later, the pro-Cuban ELN was launched.

Second, the front had the paradoxical effect of weakening the two main parties, because political competition took place within each party rather than between them. Both parties were broad and loose: for example, Communists were sometimes elected as Liberals.

To many critics, the institutional arrangements bequeathed by Colombia's peculiar history lie at the heart of its current difficulties. Take the political system. The two parties are accused, variously and somewhat contradictorily, of elitist paternalism and of pork-barrel "clientelism". The state is charged with being absent as well as repressive. These criticisms are heard not only from the left but, more surprisingly, often also from self-styled members of the establishment, a term much used in Colombia.

Colombian politics certainly had the appearance of a cosy club. Since 1930, a handful of families have dominated presidential politics: the line-up of presidents has included two Lopezes, two Lleras and two Pastranas, and each political dynasty had a television news franchise or a newspaper. Even though power-sharing in the formal sense withered away in the 1980s, it remains a habit: for example, Liberals hold important jobs in Mr Pastrana's government. But it is not as cosy as all that. Eduardo Posada Carbo, a Colombian historian at the Institute of Latin American Studies in London, argues that Gaitan's assassination and the national front prompted "a petrification of Colombian politics in the collective memory" which led to a disregard for the virtues of the country's representative democracy, as well as a failure to recognise its evolution.

Institutional flaws

Continuous political reforms since the 1970s included a new constitution in 1991, following peace talks that had seen three small guerrilla groups (but not the FARC or the ELN) lay down their arms. Many of the provisions of the new constitution were designed to make government more democratic by placing restrictions on the executive, to broaden the political system and to encourage new parties.

The constitution has some good points. Inspired by Spain's model of regional autonomy, it has given new powers to mayors and departmental governors, created a new office of attorney-general and set up new institutions to improve human rights. Now, a decade on, Colombian democracy does seem more vigorous than it was. Voter turn-out in elections has been rising, to a record 59% in 1998. Politics has many new faces, especially at local level.

A particular success has been Bogota, which has undergone a municipal renaissance under several reforming mayors, including Enrique Peñalosa, a Liberal, and Antanas Mockus, an independent now in his second term. They have cleaned up the city's finances, built a new and cost-effective public-transport system, created new parks and built new secondary schools in poorer districts. The capital's murder rate has fallen sharply, helped by Mr Mockus's citizen education campaigns, which have included stronger regulation of alcohol and guns.

The constitution also had flaws. It combined rigid micro-management with a system of government that is "both unchecked and unbalanced", according to a recent study of Colombia's institutions by a team of academics led by Alberto Alesina, an economist at Harvard University.

First, the constitution added to political pressures to increase state spending, which contributed to the 1999 recession. An activist constitutional court has not helped. Until this year, seven of its nine members happened to be labour lawyers, who have added to the government's fiscal problems (and to the unemployment rate) by decreeing wage increases. The court has also done severe damage to one of the most successful housing-finance systems in Latin America by capping interest rates.

Much of the extra spending came from the decentralisation of government mandated by the constitution. According to Juan Jose Echeverria of Fedesarrollo, a Bogota think-tank, Colombia in 1995 transferred 39% of public revenues to local government, well over twice the Latin American average. But Colombia has not embraced federalism; most revenue-raising remains with central government. Many local governments are now bankrupt. Under a new law, they are supposed to cut costs in return for a government bail-out.

Second, party politics has evolved in unexpected ways. Under the constitution, the Senate is elected on a national rather than a regional basis. The idea was to encourage third parties. There has been a rise in

support for independents (though some of these come from the main parties). But the traditional parties remain in control. In practice, though, they are increasingly fragmented. Governments must negotiate with individual conggressmen—and are free of the scrutiny of an effective opposition. Corruption has flourished, especially in the form of well-organised scams involving local politicians, as Fernando Cepeda, a political scientist and former minister, points out.

Third, the administration of justice has improved only slightly, as the modest fall in the murder rate attests. In Colombia, murder usually goes unpunished. According to Mauricio Rubio, a Colombian economist at Carlos III University in Madrid, only around 40% of murders are ever investigated, and only one murder in ten results in an arrest. The conviction rate is a mere 7%, and even then the murderer can expect to serve an average of only four-and-a-half years in jail.

This failure of public policy has encouraged private (in)justice. There are as many private security guards in Colombia as there are policemen. For decades, death squads operated within the security forces, killing both alleged guerrilla supporters and social undesirables such as beggars and prostitutes. One reason for that was because military officers felt that their fight against the guerrillas received insufficient backing from the state, but they in turn relied on being able to act with impunity. Both points apply, writ large, to the paramilitaries.

Yet for all Colombia's failings, its institutions also notched up some striking successes. Economic growth went hand in hand with social progress. In the 1960s, income distribution was highly unequal, even by Latin American standards, but between 1970 and 1995, progress in cutting poverty and inequality was "well-nigh spectacular", according to Juan Luis Londoño, an economist at Bogota's University of the Andes. Measured by unmet basic needs, the percentage of the population living in poverty fell over that period from 70% to 27%, and inequality declined steeply.

This progress was the fruit of economic growth, but also of well-targeted social spending by government. Sadly, it has since been jeopardised by recession: over the past three years, an additional 3m Colombians have fallen into poverty, Mr Londoño reckons. But talk of institutional failure in Colombia needs to be kept in perspective. A more powerful factor in the country's current ills is the corrosive effect of the drug trade.

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Spraying misery

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Illegal drugs have done huge damage to Colombia, but the war against them risks being counterproductive

SAN JUAN DE CERRO AZUL, despite its impressive name, consists of just half a dozen wooden huts. It stands on a ridge overlooking steep hillsides at the end of a bruising dirt track, an hour by jeep from the riverside town of San Pablo, on the Magdalena in the south of Bolivar department. For the past ten years, San Juan has been home to Eliecer Galvis, a 38-year-old farmer.

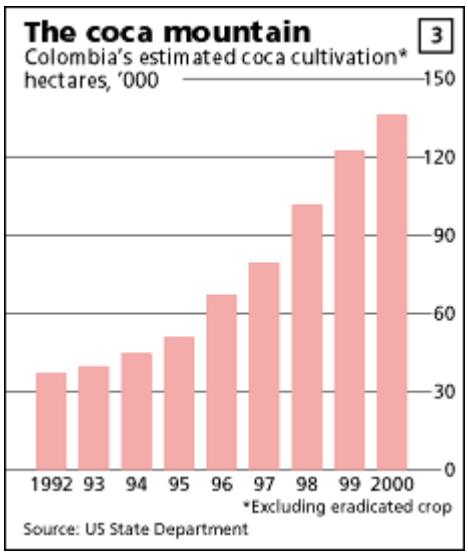
Mr Galvis, whose bare upper torso carries a long scar across the stomach, says he has 30 hectares (74 acres) of land on the scrabbly soils of the hillside behind San Juan. Like many Colombian farmers, he grows bananas, yuca and maize. But “food crops don’t give a decent income”, he says. So three years ago, he began to plant coca. He had four hectares of the green-leaved shrub, enough to provide a living for his family of seven.

That was until the weekend in mid-February when the police helicopters arrived, escorting a crop-duster that swooped low over the fields and sprayed the coca with glyphosate, a powerful agricultural weedkiller. Ten days later, Mr Galvis’s coca field looked brown and withered. So, he claims, were his food crops. “Who knows what we’re going to do now? They’ve destroyed everything. At least they should pay us something, and build a decent road, so that we could make a living from agriculture or cattle,” he complains.

Mr Galvis was the target of a vigorous coca-spraying campaign that American officials see as a key element in tackling their drug problems. Over the past two decades, the United States has honed a three-pronged strategy for the Andean countries, aimed at cutting the supply of cocaine reaching its shores: first, going after drug-processing labs and transport routes to disrupt the market for coca leaves, thus driving down their market price; second, eradicating coca growing, by consent if possible, by force if necessary; and third, financing the development of alternative sources of income for at least some of the coca farmers and labourers.

This strategy has been a qualified success in Bolivia, where acreage under coca decreased from 48,000 hectares in 1996 to 15,000 last year, according to the State Department’s annual report on international narcotics control. In Peru, too, land under coca fell from 115,000 hectares in 1995 to 34,000 last year. Unfortunately the coca simply moved to Colombia, where cultivation has risen steadily over the past decade (see chart 3). In the early 1990s, Colombia’s drug traffickers also introduced opium poppies, which are grown on the high Andean slopes in the south. Colombia is now a small heroin producer.

What makes matters worse for the drug warriors—and for Colombia—is that most of the coca is in areas which are under the control of one or more of the country’s armed groups, rather than the government. That is not coincidental: as an outlaw industry, drugs thrive in a lawless environment. Superimpose a map of the coca crop on one of guerrilla and paramilitary territories, and the two will prove a good fit (see map towards end of this article). Almost half of the coca crop comes from the southern department of Putumayo, which is controlled partly by the FARC and partly by the paramilitaries. Coca cultivation has increased in southern Bolivar, Nariño and Norte de Santander departments—battlegrounds contested by all three illegal armies.



A blitz on coca

Wiping out Colombia's coca crop is, ostensibly at least, the chief aim of the United States' contribution to Plan Colombia. Several years' spraying has so far failed to stop the growth of the coca harvest, but officials insist that for the first time they now have enough resources, both in hardware and in cash.

Some $440m of American aid is being used to train three anti-drugs army battalions, totalling around 2,500 men, and to equip them with 16 Blackhawk helicopters. These will not start arriving until June, but the first two batallions have already gone into action, using 22 Vietnam-era Huey helicopters.

On December 19th, when the thousands of *raspachines* (migrant coca-leaf pickers) had gone home for Christmas, the Colombian police began a lightning spraying campaign in Putumayo. By mid-February, with the protection of the battalions, they had sprayed some 29,000 hectares without encountering serious armed resistance. Over half of this was in paramilitary-controlled areas, and much of the rest in those of the FARC.

Farmers claim that glyphosate is dangerous to health, though there is no firm evidence of that. The spraying may be damaging to the environment, but so is growing coca: large areas of forest have been cleared to make way for it, and millions of gallons of chemicals used in its processing.

Much of Putumayo's coca is in large, industrial plantations. Farms with less than 3 hectares of coca are spared; if food crops are hit, that is because they have been cunningly planted amid or next to the coca. If mistakes are made, compensation is paid. Officials say that the crop-dusters' nozzles are computer-controlled; the targeting system uses American satellite imagery.

That is the theory. In practice, this is not an exact science. And for the farmers, growing coca is a rational economic choice; being made to stop growing it causes them serious problems. Plan Colombia does recognise this. "The whole project is carrot and stick: they see the spray planes and sign up for manual eradication," says Anne Patterson, the United States' ambassador in Bogota. Already, about 2,000 coca farmers in three municipalities in Putumayo have signed up for manual eradication. Gonzalo de Francisco, the Colombian official in charge of the programme, says he hopes that in all, 26,000 families in Putumayo, with 16,000 hectares of coca, will sign up. They will have a year to destroy their coca; in return, they will get emergency aid, and long-term help to develop alternative livelihoods. These could include cattle, forestry, fish, palm hearts and natural medicinal products.

One problem is that the emergency aid has been so slow to reach the farmers. Another, as American officials admit, is that alternative development in Putumayo will be far harder than in, say, Bolivia. "The infrastructure is poor, so is access to markets, quality of soil and climate, and the security situation is complex," says George Wachtenheim, the outgoing Colombia director of the United States Agency for International Development. There is also a high risk that coca will simply move on: already it is being planted in the inaccessible rainforests along the Pacific coast.

In Putumayo, the government is spending $50m on improving roads, but the biggest question mark is security. As part of an agreement reached with Mr Pastrana in February to revive the moribund peace talks, the FARC said they would not obstruct voluntary coca-eradication schemes. But will that stick? And if the government fails to provide swift alternatives, how many of the disgruntled farmers and labourers will join the guerrillas?

In the middle-Magdalena region, which includes southern Bolivar, a development project run by Desarrollo y Paz, a non-government organisation, gives some grounds for hope. This is perhaps the most violent and conflict-ridden area of Colombia. But by taking a politically neutral stance, Desarrollo y Paz is managing to work, more or less in peace, with around 5,000 peasant farmers. It gives advice and arranges credit (through private banks, though with government subsidies and guarantees) for projects ranging from organic farming to buffaloes, sugar cane and African palm.

A well-managed small farm can provide an income of at least three times Colombia's minimum wage, says Francisco de Roux, the director of Desarrollo y Paz and a Jesuit priest. "Nothing is more profitable than coca, but the farmers know it has a very high social cost. They say: show me an alternative that offers a reasonable living, and I'll leave coca."

Vicious circle

Tired of the United States' bullying hypocrisy over drugs, Colombians have often downplayed the industry's disastrous effect on their own country. For a while, a decade or so ago, that became

impossible. The traffickers based in Medellin, led by Pablo Escobar, sought political and economic power: when thwarted, they resorted to bomb attacks and assassinations of judges, politicians and journalists. In 1989, three presidential candidates were murdered.

With help both from the rival gang based in Cali and from the United States, the police eventually dismantled the Medellin cartel, killing Escobar in 1993. The Cali traffickers preferred bribery to terrorism: their undoing was to respond to a request for campaign cash from aides to Ernesto Samper, who was elected president in 1994.

Mr Samper survived impeachment over the matter, but the affair had some disastrous consequences. One was that the United States sought to weaken Mr Samper's government, cutting aid to Colombia. That was one reason why both coca and the illegal armies flourished in the mid-1990s.

The Samper government did crack down on the Cali gang. The police, with much American tuition, regularly bust traffickers and laboratories. But none of this has cut the flow of drugs from Colombia. Nowadays, according to Bruce Bagley, a researcher on drug trafficking at the University of Miami, up to 60% of the trade is in the hands of small "boutique" syndicates, run by family groups of middle-class professionals with close links to the paramilitaries. Much of the remainder is controlled by an old-established gang in the Cauca valley, north of Cali.

American officials periodically link the FARC to international trafficking, but without firm proof. Still, nobody disputes that the guerrillas make money from taxing coca farmers and traffickers, and from running processing laboratories and airstrips. The best estimate of their income from drugs, extortion and kidnapping is perhaps $250m-300m a year. Alfonso Cano, a member of the FARC's seven-strong secretariat, as its top leadership is called, admits that the guerrillas receive money from "retentions" (kidnaps). "We know that this is bad, but we have a very large force that needs to eat and to dress, and we need arms and munitions." He adds that drug money is "everywhere in the world economy". The paramilitaries earn perhaps $200m from similar activities, reckons Mr Bagley.

That is the vicious circle that is at the heart of Colombia's plight. As an illegal product, cocaine attracts a risk-inflated price. Although most of the profits go to dealers in consumer countries, what filters back to Colombia amounts to significant wealth in a poor country: estimates of the money repatriated by the drug industry range from $2.5 billion to $5 billion a year (or 2-4% of GDP). For comparison, Colombia's defence budget is $2.8 billion, including army and police pensions. Whether the drug money is used to finance illegal armed groups or to corrupt officials, the outcome has been a catastrophic weakening of the democratic state and the rule of law.

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Decline of the coffee republic

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From The Economist print edition

FOR a century, coffee has been at the heart of Colombia's economy and of its democracy. As recently as 1986, it made up more than half of the country's total exports. It still accounts for a third of rural employment. Unlike in Central America or Brazil, coffee in Colombia is a democratic and labour-intensive industry. It is grown by 400,000 farmers, mainly smallholders, who employ a similar number of labourers.

Coffee created a rural middle class, provided a market for industry, and financed a local welfare state that was perhaps the finest achievement of Colombia's paternalist democracy. The results can be seen around Manizales, the capital of the coffee belt. It is a clean, modern city of 380,000 people, 2,250 metres up in the central cordillera of the Andes. The hillsides are studded with neat farmhouses that have electricity, running water and telephones, and are linked by asphalted roads.

Coffee's success was a triumph of enlightened regulation, overseen by the powerful Federation of Coffee Growers, an organisation financed by a small charge on its members' coffee sales. Founded in 1927, the federation set up a research centre to develop new varieties and pest-control systems, offered technical advice and credit to the farmers, and worked to ensure quality. It was also responsible for one of Latin America's few successful international brands, Café de Colombia, with a logo featuring a jovial moustachioed farmer. In conjunction with the government, the federation also operated the national coffee fund, which fixed guaranteed minimum internal prices for coffee, intervening as a buyer of last resort.

Make mine black

Now all of this is under threat. Trends such as the advent of new low-cost producers such as Vietnam and the increased efficiency of Brazilian growers have created a permanent glut in the world coffee market. Colombian coffee attracts a premium over other arabica coffee of $0.10 a pound for its quality, but its price, at around $0.76 a pound, is at its lowest for eight years. At that level, many farmers barely break even. Last October the federation had to suspend its charge and cut the guaranteed price.

This crisis has highlighted the federation's conservatism. Jorge Cardenas, the current president, has been in the job for 40 years, and is only the third incumbent in the organisation's 74 years of life. But his members' problems are hardly Mr Cardenas's fault. The federation has been close to the farmers. Had it been closer to the consumers, it might have been quicker to market and promote higher-priced speciality coffees.

There are no easy answers for the coffee belt. It is hard to increase productivity on steep mountain plots, and the land is not suitable for other crops—except, on the lower slopes, coca. Already, coffee production has fallen from 16m 60-kilo bags in 1995 to 10m bags last year. Unemployment in the area is rising, and so is violence. Some Colombians see the problems of coffee, and of other crops such as cotton, as a big factor in the rise in coca cultivation.

In Manizales, they are working on other ideas, including mushroom farms (using coffee waste) and bamboo production for building materials. The mayor has an ambitious plan to set up technology parks and promote investment in software businesses. That might be a more promising way to spend aid money than spraying coca fields.

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Talk of peace, acts of war

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The FARC shows no signs of giving up its fight, but the army is getting stronger

AP

The FARC in fighting form

AT FIRST glance, San Vicente del Caguan looks like any other small frontier town on the fringes of the Amazon basin. On its stiflingly hot, bustling streets, lined with half-finished houses of concrete and brick, Japanese pick-ups and motorbikes jostle with horse-drawn carts. From early afternoon, Mexican *rancheras* blare out from the brothels' loudspeakers. Each day, 30 trucks of cattle leave the town, most for the slaughterhouses of Cali.

What makes San Vicente unusual is the presence in the main square of a small office of the FARC, staffed by neatly uniformed women and youths. Outside, in a dusty park, a billboard denounces Plan Colombia ("The gringos provide the weapons; the Colombians provide the dead"). For the past two years, the government has allowed the FARC to control a 42,000-square kilometre swathe of mountains, jungle and grassland around San Vicente. The army battalion outside the town was withdrawn. The FARC had demanded this "demilitarised zone" as a condition for getting peace talks going.

An hour away by a dirt road leading across cattle pastures carved from cleared jungle is the village of Los Pozos. There, in a fenced-off enclosure, is a large, government-built block of offices and meeting rooms. In its grounds, seated on white plastic chairs beneath an open-sided palm-thatched hut, government negotiators talk with their counterparts from the FARC.

Yet during two years of intermittent talks, the only thing agreed on has been a cumbersome agenda. At the FARC's request, discussions have centred on how to reduce unemployment, with some 20,000 people attending public hearings in San Vicente and Los Pozos. Meanwhile the war has gone on, with increasing savagery.

Many Colombians believe Mr Pastrana has made too many unilateral concessions, and many in the armed forces worry that the demilitarised zone helps the FARC's military operations. "They've acquired a very large logistical and operational base. They are supplying, equipping and training with no action by the state to hinder them. It's an advantage," says General Fernando Tapias, the armed-forces commander. But, he adds, "It has allowed the country and the world to see the government's willingness to seek a negotiated settlement, and the opposition to democracy of the insurgents." Some military analysts also think that the zone is slowly turning the FARC into a sedentary force, marked by internal dissension and corruption.

With public confidence in the "peace process" vanishing, in early February Mr Pastrana made another of the bold theatrical gestures that are his chief political virtue. He flew to the zone for two days of talks with Manuel Marulanda (known as "Tirofijo" or Sureshot), the FARC's 69-year-old leader, and the two of them hammered out a fresh accord. They agreed to speed up the talks, to start discussing a ceasefire, and to set up a committee to discuss ways "to end paramilitarism and to diminish the intensity of the conflict". The FARC also agreed to "a mechanism" to check that the demilitarised zone was not being abused, and to regular meetings with foreign diplomats.

Many Colombians hope that the "Los Pozos Accord" will breathe fresh life into the talks. So far, the peace process has increased the FARC's trust in the government, says Camilo Gomez, Mr Pastrana's chief peace negotiator (though the guerrilla leaders at Los Pozos clutch their AK-47s and wear uniforms, revolvers and machetes even as they talk). "Now we have to restore citizen confidence in the process, with agreements that show it has been moving forward," says Mr Gomez.

But the FARC sees things rather differently from the government. "Our struggle is to do away with the state as it now exists in Colombia, preferably by political means, but if they don't let us then we have to

carry on shooting," says Alfonso Cano, of the FARC's ruling secretariat.

The FARC is unlike any other Latin American guerrilla movement, not least in its longevity. Its origins lie in peasant self-defence groups organised by the pro-Moscow Communist Party in or near Tolima during *la violencia*, and later driven by the army to the mountains in what is now the demilitarised zone. Even today, most of its members are of peasant origin, says Mr Cano. Sociologically, the FARC can be seen as representing the interests of two groups of Colombian peasants: small farmers who have colonised "internal frontiers" such as the Andean foothills, the *llanos* and the middle-Magdalena region, and whose farms are threatened by cattle barons; and farmers and day-labourers in the coca industry. In the cities, Mr Cano admits, its influence is "not as great as we would like".

The FARC combines peasant stubbornness with narrow dogmatism. Mr Marulanda has never visited a city larger than Neiva (population: 248,000), the capital of Huila. The FARC still claims to be communist, even though Colombia's Communist Party has shrivelled into insignificance, but it now dilutes its communism with "Bolivarianism". That means a "gaseous mixture of populism and anti-imperialism", aimed at attracting middle-class support, says Alfredo Rangel, who was a security adviser to Mr Samper's government. Colombian officials worry that the FARC has gained the sympathy of Hugo Chavez, Venezuela's president (who also calls himself a "Bolivarian"). But there is no evidence that Venezuela is giving active help to the FARC.

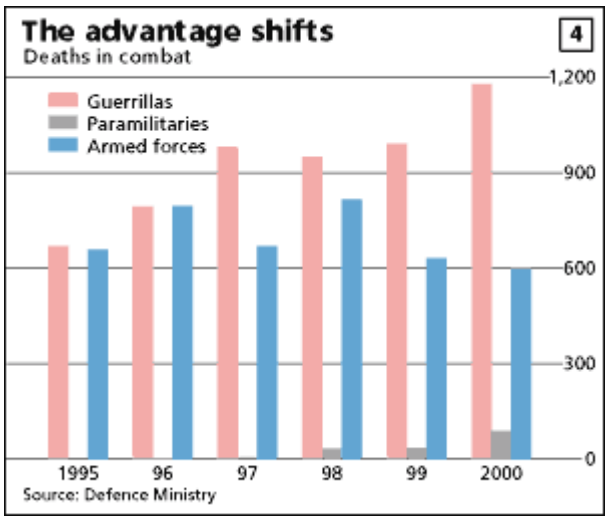
A distrust of democratic politics

The FARC's distrust of democratic politics was exacerbated by the failure of peace talks in the 1980s. After a ceasefire was agreed in 1984, the FARC launched a political party, the Patriotic Union, which won 4.5% of the vote in the 1986 poll and elected several mayors. But over the next five years more than 1,000 of its members were murdered, including two of its presidential candidates. Some were killed by paramilitary death squads linked to the armed forces, and others by the drug gangs—with which the FARC were now in competition. One result of the massacre of the Patriotic Union is that the FARC is an army without a party or politicians. "They're military giants, but political dwarfs," says Ingrid Betancourt, an independent senator. That makes the talks more difficult.

Mr Pastrana says that he would like to sign a peace deal before he leaves office in July 2002, but if that proves impossible, "I hope we'll advance to the point where the process becomes completely irreversible." Officials hope that through the talks and the links with foreign diplomats, the FARC will be persuaded to account for its actions, scale down its demands and accept representative democracy.

That has not happened yet. Mr Cano insists that the FARC will not demobilise in return for "houses, cars and scholarships", or a few seats in Congress. "This country will be saved when we have the chance to run the state", he says.

While it talks peace, the FARC is still building its war machine; its forces now number perhaps 18,000, of whom some 6,000 are lightly armed urban militia, according to the defence ministry. The FARC's troops are divided into some 70 "fronts", each averaging about 150 people, and a handful of "mobile columns". Thanks partly to Vladimiro Montesinos, the disgraced intelligence adviser to Alberto Fujimori, Peru's former president, they are well armed. Last year the FARC received 10,000 AK-47 automatic rifles from Jordan via Peru, in a deal arranged by cronies of Mr Montesinos.



During Mr Samper's government, the FARC began to operate in larger units. It inflicted several humiliating defeats on the armed forces, where small detachments were overwhelmed by forces of several hundred guerrillas, and some 500 police and troops were taken prisoner.

Mr Pastrana has set about making the armed forces more effective. They have been fighting the guerrillas for four decades, but they have never been given much economic or political support by the Colombian elite. Tellingly, conscript soldiers who have completed secondary education (known as *bachilleres*), and are therefore considered middle class, cannot by law be sent into battle.

The armed forces number only 140,000. There are 100,000 police, who also come under the defence ministry. By international standards these numbers are small, especially considering the size of the irregular forces, which total perhaps 35,000. Standard counter-insurgency doctrine suggests that Colombia needs at least another 100,000 troops.

Instead, the government has tried to improve the quality of its forces, in two ways. It has increased the numbers of salaried professional soldiers, from 10,000 in 1998 to 43,000 now (and a planned 55,000 by the end of this year). They are paid around $200 a month. These soldiers are replacing the conscript *bachilleres*, who "cost money but didn't do anything," says Luis Fernando Ramirez, the defence minister. Soldiers now get training in human rights, and the military code has been reformed.

The army has also been reorganised. Small, vulnerable detachments have been withdrawn. The emphasis is now on mobility. A rapid-deployment force of about 5,000 professional troops has been set up for which the government has bought two dozen Blackhawk helicopters. "For the first time we have an attack force," says Mr Fernandez.

The air force and the navy (whose marines patrol the rivers) are also working more closely with the army. Some 650 Colombian officers and NCOs go on training courses in the United States every year. Under a contract with the Pentagon, MPRI, a private company run by retired American generals, was advising Colombia on "force modernisation". The company was successful in helping Croatia in 1994-95, but in February General Tapias ended the arrangement. "Nobody else has our kind of experience in this unique war," he says.

Some weaknesses remain, especially in night operations and logistics. And the armed forces are not strong enough to retake much territory for the state. Last year, however, they did eject the FARC from the Sumapaz massif, just south of Bogota, whence the guerrillas had been kidnapping residents of weekend homes near the capital. The FARC had built 60km (37 miles) of road there, using machinery "borrowed" from nearby municipal councils. The army is now building a base there. Late last year, when a FARC column from the demilitarised zone attempted to move to Norte de Santander department, it was routed by the army. Many of the guerrillas deserted; some of them turned out to be children, suggesting that the FARC is having trouble recruiting.

Overall, the FARC is no longer winning the war—though neither, yet, is the army. When a base is attacked, the army can now react within the hour, says Rafael Pardo, a former defence minister. So the FARC has returned to guerrilla war and unconventional weapons. The latest tactic is to attack police posts in small towns, using cooking-gas cylinders stuffed with explosives—a devastatingly inaccurate weapon.

But it would take a different sort of weapon to swing the balance back in the FARC's favour. There have been many reports, all unconfirmed, that the guerrillas have acquired ground-to-air missiles. If true, that could neutralise the army's new helicopter-borne strategy. It is not hard to acquire such missiles, but they are delicate things, and hard to maintain in working order in the tropics.

Even so, most military analysts believe that the FARC's leaders—or at least Jorge Briceño (popularly known as "El Mono Jojoy"), its top military commander—are not yet persuaded that they cannot win the war. The guerrillas have said they are planning for an army of 30,000—sufficient, they hope, to stage a "final offensive" against the armed forces, which would lead to the collapse of the state. Many political analysts believe that it will take another two to four years of fighting before the FARC abandon such plans and start negotiating seriously. But Colombia's conflicts are far messier than a straight fight between the army and the FARC—and most of the casualties are civilians.

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The curse of the vigilantes

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The paramilitaries are the greatest political threat to Colombian democracy

TO GET a sense of the murderous complexity of Colombia's conflicts, visit Barrancabermeja, a city of 283,000 people on the banks of the broad Magdalena river. It has long been Colombia's oil capital, its skyline dominated by the flaring chimneys of a large refinery owned by Ecopetrol, the state oil firm. Partly to guard the refinery, two army battalions are based in the city; a 70-man special-forces squad was dispatched there in January.

Reuters

Another day, another massacre

Even so, in the first three months of this year, almost 200 people were murdered in Barrancabermeja. Most were killed by the paramilitaries, who are laying siege to the working-class suburbs east of the railway line that divides the city in two. For most of the past three decades, these suburbs have been controlled by the ELN (which in the past had influence over the oil workers' union) or by the FARC.

By day, the army has checkpoints in the suburbs, and the police patrol the area. But what was once a police station there is a shell, bombed by the ELN years ago. At night, the murders begin. The victims are guerrilla sympathisers, say the paramilitaries. Their critics disagree. In January, the paramilitaries declared the Popular Feminine Organisation, a grassroots group, to be a "military target". In one suburb, they gave six members of this group two hours to leave their homes, or risk death.

What is at stake in this battle is not just political control of the city, but money. The refinery produces 80% of Colombia's petrol. Around 3% of this is stolen from the distribution pipelines and sold, costing Ecopetrol $30m a year, says Alberto Calderon, the firm's chief executive. For years the guerrillas did the stealing; now it is the paramilitaries.

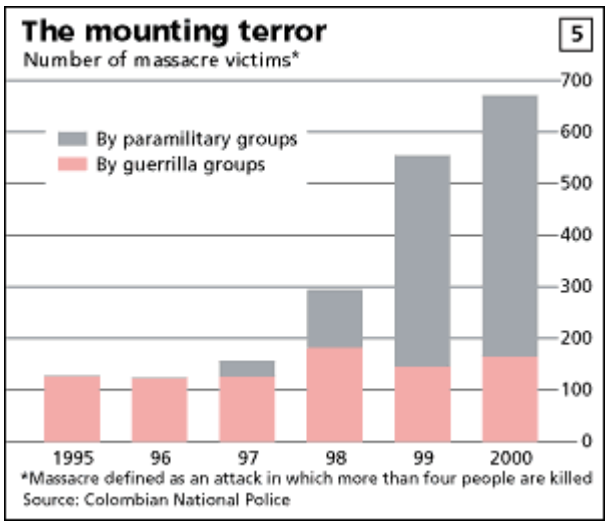
Those paramilitaries are the fastest-growing armed group in Colombia. They have over 8,000 troops, up from 4,500 in 1998 (and only 1,200 in 1993), according to the defence ministry. Most of these are organised in the AUC, led by Carlos Castaño, the son of a dairy farmer kidnapped and murdered by the FARC. They are responsible for many of the worst atrocities against civilians.

Rural vigilante groups existed in Colombia during *la violencia*, but the origins of the AUC lie in the late 1980s, when the drug barons acquired a taste for the life of the landed gentry. During the 1980s, traffickers bought 1m hectares of land in rural areas, according to an estimate by *Semana*, a news magazine. That was more than the government's Agrarian Reform Agency had managed to distribute to landless farmers in 25 years, and led to talk of a land "counter-reform".

The traffickers' acquisitions were mainly cattle farms in the middle Magdalena valley, in Meta in the *llanos*, and above all in Cordoba, Antioquia and Sucre in the north-west. These areas were infested by guerrillas, who routinely demanded protection money. The traffickers' countered such demands by organising militias, which evolved into the AUC.

The AUC retains close links with the drug trade, but it also enjoys the support and financial backing of many cattle farmers who have nothing to do with drugs, and some politicians and military officers. In Cordoba, in particular, the AUC controls local government. Opinion polls show that 10-15% of the population approve of Mr Castaño and the AUC (the equivalent figure for the guerrillas is around 3%, though that is probably an underestimate). Some Colombians see the paramilitaries as the only means to defeat the guerrillas and restore order. "The AUC exists because [the] armed forces have not done their institutional duty of guaranteeing lives, property and honour," Mr Castaño recently told the *Washington Post*.

The paramilitaries are not short of money. They pay their gunmen comparatively handsome wages of $300-400 a month, and arm them with mini-Uzi machine guns. Mr Castaño said in the same interview that his forces have more than 800 former guerrillas in their ranks, more than 1,000 former soldiers, and at least 135 ex-officers and NCOs.



The AUC uses terror to win territory from the guerrillas. In the first ten months of last year, the paramilitaries carried out 75 “massacres” (defined as incidents in which more than four people are killed) in which 507 civilians died. In some cases, these massacres involved gruesome acts of torture. The paramilitaries have also targeted human-rights workers, trade-union leaders, academics and journalists. Many of Colombia’s leading social scientists and journalists have been forced into exile (though in some cases it has been the guerrillas, rather than the paramilitaries, who have been behind this).

Staining the state with blood

Read any human-rights report about Colombia, and you will find many testimonies showing that, across the country, the paramilitaries operate unmolested close to many of the security forces’ bases.

The government says it is taking action against both the paramilitaries and their military friends. The security forces claim to have killed 76 paramilitaries in the ten months to October last year, more than double the number for the same period the year before, and to have captured 248. Mr Pastrana has ordered the sacking of scores of officers alleged to have links with the AUC. But of one group fired last year, 23 promptly joined up with Mr Castaño. In February a retired army general was sentenced by court-martial to 40 months in jail for having failed to halt a paramilitary massacre in 1997. But the case sent a mixed message: the colonel who had blown the whistle was given a similar sentence.

Mr Ramirez, the defence minister, says that “in three or four years’ time, [the paramilitaries] will be our biggest headache.” But it may happen much sooner, for two reasons. The first is that Mr Castaño appears to be seeking political influence to match his increased military might. Many politicians, including Mr Pastrana, draw a distinction between the guerrillas, to whom they ascribe some degree of political motivation (and in practice, legitimacy), and Mr Castaño, whom they see as a thug. But Mr Castaño wants a place at the peace table.

To that apparent end, for the past two years the AUC has been blocking a second set of peace talks, between the government and the ELN. Under a plan agreed on with the government, the ELN would assemble for a nine-month “peace convention” in a “demilitarised zone” of 4,000 square kilometres (1,550 square miles) in southern Bolivar, just across the Magdalena river from Barrancabermeja. But this area is strewn with obstacles. “All the problems of the country are there in microcosm: the paramilitaries, the FARC, the ELN, drugs and crime,” says Mr Pastrana.

The AUC controls the towns and the coca industry in this zone. It twice ordered the local population (which has no great enthusiasm for the ELN) to stage roadblocks in protest at the planned peace zone. That was an open challenge to the government. In February, it responded by sending 3,000 troops to the area, and spraying 5,000 hectares of coca (including those of Mr Galvis). Agreement on setting up the zone at last seems imminent.

Peace hopes

Ironically, the ELN appears much keener to reach an early peace than the FARC. Though it still has some 3,500 fighters (and perhaps the same number of urban militia), it has been badly weakened by paramilitary attacks against its civilian base. It has agreed to far tighter conditions over its use of the proposed haven than those applied to the FARC. If its hopes of peace are thwarted, it will doubtless redouble a terrorist campaign that in the past two years has included several mass kidnaps, as well as constant acts of sabotage against the electricity grid and oil pipelines.

The second, and more important, reason why Mr Castaño is becoming an ever bigger headache for the government is that by undermining the legitimacy of the state and weakening the rule of law, he is jeopardising both the peace process and the continuation of foreign aid to Colombia.

At the top, the armed-forces commanders know that their institution must be seen to sever all links with the paramilitaries—or risk seeing the United States Congress cut military aid. But lower down, attitudes are harder to change. The paramilitaries never attack the security forces, with whom they share a common enemy. “We need a historic rupture between the armed forces and the paras, and it hasn’t happened at all levels,” says Alfonso Gomez Mendez, the attorney-general.

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After the crash

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How long will it take Colombia to rebuild its economy?

GIVEN the country's enviable economic record over the previous decades, it was a sad irony that when emerging markets from Asia to Brazil got into trouble in 1997-98, Colombia's economy turned out to be the most vulnerable in Latin America. By 1998, its current-account deficit was running at over 5% of GDP, the highest in the region, and its fiscal deficit at 5% of GDP, second only to Brazil's. "For the first time in its history, Colombia had totally heterodox economic management during the 1990s," says Mr Echeverria, of Fedesarrollo.

Reuters

Sanguine Santos

However, the average Colombian politician firmly believes that the blame lies elsewhere—with the neo-liberal policies introduced in the early 1990s by President Cesar Gaviria. Those policies were not especially bold by the standards of the region. Average tariffs fell from 34% in 1985 to 11.7% in 1997. Some state firms were privatised, but large parts of the telecoms and energy sectors remain in the hands of government, national or local.

But two things coincided with the opening, undermining many of its aims. First, the exchange rate quickly became overvalued. In part, this was the result of big capital inflows. Some of these were repatriated drug profits, some were attracted by new oil finds, and some reflected Colombian firms' borrowing abroad, taking advantage of the country's investment-grade credit rating.

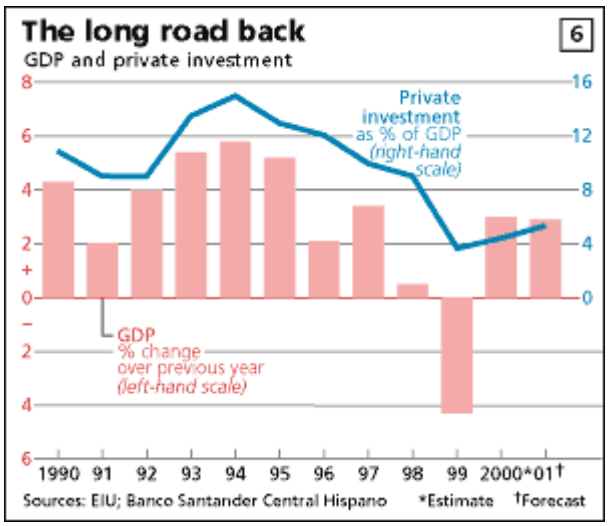
A strong peso also became the policy of successive governments and the central bank as they tried to comply with the new constitution's requirement to cut inflation. On this front at least, they were successful: inflation in 2000 was 8.7%, down from 32% in 1990. But the strong peso hit farmers and textile manufacturers hard. And although capital and imports were cheap, labour became increasingly expensive. Cheap foreign credit flooded into inexpert and inadequately supervised local banks. It also pushed up asset prices, especially for property.

The second big jolt to the economy was a spending binge. Total public spending increased from 24% of GDP in 1990 to 36% in 1998, for three reasons. First, central government was required by the new constitution to increase transfers to local government, but failed to make corresponding cuts in its own spending. Second, Mr Samper's battle against impeachment and the hostility of the United States proved expensive. As he tried to buy popularity, the public-sector wage bill increased by 70% during his term. Third, Colombia's internal conflicts exacted a mounting financial toll.

Descent to recession

All these imbalances pushed Colombia first towards slower growth and rising unemployment from 1996 onwards, and then, in 1998-99, into the novel experience of deep recession. The credit bubble burst, property prices crashed, several banks collapsed, and the fiscal deficit ballooned. Colombia lost its cherished investment-grade rating, which increased its borrowing costs. Unemployment soared.

Recovery has been swift, but is still shallow (see chart 6). The central bank devalued the peso, scrapping an exchange-rate band system and allowing the currency to float. That restored the real exchange rate to its level of a decade ago. Exports grew by 13% last year, and the current account went back into balance. Under an agreement with the IMF for loans totalling $7 billion over three years, the government committed itself to a moderate dose of fiscal rectitude. The overall fiscal deficit declined to 3.6% of GDP, from 5.4% in 1999.



The government took three banks into public ownership, liquidated three mid-sized private banks and gave subsidised loans to another ten, on condition that their shareholders pumped in extra cash. This staved off a collapse of the financial system. Foreign banks (notably Spain's BSCH and BBVA) now account for 31% of the system's assets.

All the same, the economy remains handicapped by several structural weaknesses which will need fixing before growth and employment can regain their buoyancy. The government is cheerfully forecasting growth of almost 4% this year, but some independent economists put the figure at 2.5%.

Juan Manuel Santos, who became Colombia's finance minister last year, says that he hopes to hand over to the next government (in mid-2002) "if not investment grade, then conditions from which we can recover it". But that, he concedes, will require more work on the public finances.

To meet the IMF's target for last year's fiscal deficit, Mr Santos managed to persuade a reluctant Congress to permit tax increases equal to 1.8% of GDP in a full year. He claims to have shaved the government's primary deficit (ie, excluding debt-interest payments), despite a ruling by the constitutional court that overturned a public-sector wage freeze. A new law requires local governments to cut their running costs. And the government is seeking approval in Congress for two further measures: a constitutional reform to freeze transfers to local government until 2008 and, more problematically, pension reform.

In 1993, Colombia introduced a Chilean-style system of individual pension accounts, to run alongside existing pay-as-you-go arrangements that made especially generous provision for congressmen, teachers, oil workers and the armed forces, among others. This burden has become increasingly heavy: central-government spending on pensions rose from 0.8% of GDP in 1991 to 2.3% last year. The government wants to increase contributions, raise the retirement age and eliminate the special regimes. "We won't get everything, but we will get progress," says an adviser to Mr Pastrana.

With oil income falling, analysts worry that the government will not meet its targets for the fiscal deficit of 2.8% of GDP this year and 1.8% in 2002. In the midst of a war, and with unemployment already high, fiscal austerity is politically difficult to impose, so the IMF is likely to be lenient. But the cost of public profligacy is borne by the private sector, in the form of higher interest rates and scarce credit.

Another barrier to growth is the financial system. Estimates of the final cost of bailing out the banks range from 6% of GDP (Mr Santos's) to as much as 15% (a private banker's). The worst may be over, but many banks are not yet strong enough to expand their lending. Last December, bad loans still accounted for some 11% of the total, according to Fogafin, the government agency charged with cleaning up the system. To add to that, the banks will have to write off some of their loans to bankrupt local governments, according to a senior banker.

The key to faster growth lies in a recovery of private investment, which is picking up only slowly after its collapse in 1999. That is partly because of the credit shortage, partly too because firms are struggling to clean up their own balance sheets; many had borrowed heavily before the crash.

Oil is now Colombia's biggest foreign-exchange earner, and coal is set to oust coffee as the second-largest exporter next year. Both energy businesses are largely in the hands of foreign investors. Oil has a

history of flattering to deceive: large new fields were discovered in the 1970s and again in the 1990s, encouraging hopes that Colombia would become a big exporter, but exploration then slumped. Production is dropping too: last year it fell from 816,000 barrels per day in January to 685,000 in December.

To lift it up again, the government has eased contract terms for Ecopetrol's foreign partners. That seems to have produced results: 32 new exploration contracts were signed last year, up from only one in 1999. In addition, Occidental and BP are now going ahead with development work in two promising areas after their contracts were re-negotiated.

The prospects for coal are also bright. Colombia is the world's fourth-largest coal exporter, selling 34m tonnes last year. It has large, low-cost deposits close to the Caribbean coast. El Cerrejon, managed by Exxon, an American energy company, is a huge, high-tech open-cast mine, with its own railway and port. Carlos Caballero, the minister for energy and mines until last month, reckons that coal exports could double within four years.

But both oil and coal are capital-intensive. Cutting unemployment depends on industries such as construction, where the constitutional court ruling capping mortgage interest rates has paralysed investment. The government plans to help the mortgage banks by rolling their old debt into new securities, but until Congress, or the court, issues a new ruling, bankers will remain cautious about lending.

Risk premium

How much damage is public disorder doing to the economy? Some of the costs can be quantified. The conflict has added $80m-100m per year to distribution costs, according to ANDI, the confederation of private businesses. Sabotage to the electricity grid cost perhaps $175m last year, as well as blocking privatisation of two electricity firms. Spending on bodyguards and armoured cars for managers also adds up. Then there is extra defence spending, and the loss of tax revenue caused by a large drug-fuelled informal economy.

But the effect of the war is more insidious than the numbers imply. It has undermined investors' confidence in the country's future, making it harder for local firms to raise funds. Last month the country's three stockmarkets announced plans to merge later this year, but that will make little difference. Few shares are traded on the exchanges, and foreign investment in the stockmarket has plunged.

Many of Colombia's own businessmen, however, are less gloomy. "Colombia has problems, but it is not the riskiest country in the world—prices of firms are much lower than their real value," says ANDI's Luis Carlos Villegas. If only the rest of the world shared his optimism.

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Business looks outwards

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From The Economist print edition

MEDELLIN became notorious in the mid-1980s because of its drug traffickers. But for most of the past century, the city has been famous for something else: the strength of its local manufacturing firms, which still form an important part of Colombia's economy. In Antioquia department, industry accounts for 32% of GDP, compared with 14% for the country as a whole.

These firms grew by concentrating on the domestic market. Until the trade opening of 1990, they were largely protected from foreign competition. Multinationals in Colombia still account for a relatively small share of the economy. After a brief period of buccaneering equity capitalism in the 1950s, Colombian firms retreated into the Latin American mould of family conglomerates—or into a dense protective web of cross-shareholdings, as in Medellin.

Cheap capital during the 1990s softened the blow of opening the economy. Colombia's three biggest conglomerates—the Santo Domingo, Ardila Lulle and Sarmiento groups—borrowed heavily and snuggled up to government, expanding into regulated businesses such as mobile telephony and television.

Recession has speeded up change. The conglomerates are streamlining their businesses, and cutting costs. Take Ardila Lulle, whose empire spans soft drinks, beer, glass, radio and television, textiles and sugar. Whereas in 1992 the group employed 47,000 people, numbers have now shrunk to 25,000. In 1999 the group made a big operating loss, but last year it managed a small net profit of $9m on sales of $1.1 billion.

Santo Domingo and Sarmiento, for their part, have pulled out of telecoms, selling their stakes to BellSouth. Santo Domingo is merging Avianca, its airline, with Aces, a rival part-owned by the Federation of Coffee Growers. But old habits die hard. Santo Domingo and Ardila Lulle have swapped beer and associated assets with the express aim of keeping out foreign predators.

Change has gone further in the Grupo Empresarial Antioqueño (popularly known as the Sindicato Antioqueño). Based in Medellin, this group is made up of 125 firms with a total workforce of 80,000. The group has three pillars: Suramericana, a large financial group which also has stakes in retailing and catering; a clutch of food companies led by Compañia Nacional de Chocolates; and Argos, a cement firm with a range of interests in coal and building materials.

Because of devaluation and recession, the group's consolidated sales fell in dollar terms, from $7.9 billion in 1998 (with a net profit of $670m) to $4.2 billion last year (with a net profit of $320m). But it looks well placed to grow again. Unlike the Bogota-based conglomerates, the Sindicato is run by professional managers and is becoming more international in outlook. Last year its exports rose to $450m, from $90m in 1990; it now has $500m in investments abroad, mainly in the Andean countries and Central America.

In addition, some of the Sindicato firms have taken on foreign partners. For example, Exito, its Medellin-based hypermarket business, has recently merged with a local supermarketeer to become Colombia's largest retailer, and sold a 25% stake to France's Casino. According to Gonzalo Restrepo, Exito's chief executive, this deal was partly to gain capital to open new stores, but also to gain know-how. And the staff is becoming more cosmopolitan: when Mr Restrepo arrived a decade ago, he says, "I was the only one who spoke English; now 500 speak English and 40 are learning French."

That change is fundamental, and long overdue. "For the first time, Colombian firms are looking at the international market, not as a temporary thing but as a long-term strategy," says Marta Lucia Ramirez, the trade minister. She is working with a host of small and medium-sized businesses to develop their export potential. Exports of manufactured products are starting to take off.

Colombia's natural markets are the Andean countries, Central America—and the United States. For the past ten years, many of its exports have enjoyed tariff-free entry to the American market under the Andean Trade Preference Act, but this is due to expire in December. Mr Pastrana would like to see it

replaced by a broader mechanism: “The message is we don’t just want their aid dollars. We want to compete, to generate jobs. That’s the only way to stop youths from going to the war.”

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The rule of law

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From The Economist print edition

Colombia will need outside help for a while yet, but the main effort has to come from within

IN MAY 2002, Colombia faces a presidential election. Mr Pastrana (who cannot run again) is unlikely to have concluded peace by then, but he will leave the country less vulnerable than he found it. A start has been made on modernising the armed forces. And Colombia is better off with the peace process, for all its flaws, than without it.

Hoping for a better future

Who will take over? For now, the polls give a slight lead to Horacio Serpa, the Liberal leader. He has backed Mr Pastrana on the peace talks, but says he would like Europe to become more involved. Mr Serpa is an experienced social democrat, but his past closeness to Mr Samper may count against him.

However, the electoral agenda is being set by Alvaro Uribe, a former Liberal governor of Antioquia who is standing as an independent. He would make talks with the FARC conditional on an end to hostilities and international verification of the demilitarised zone. He wants a bigger army, helped by a civilian auxiliary force. His critics accuse him of favouring the paramilitaries, but he denies it. His hardline approach is gaining support among the middle classes.

Somewhere between the two stands Noemi Sanin, a former Conservative minister who in 1998 was an independent, anti-corruption candidate for the presidency, winning a 27% share of the poll. She is being advised by some of the brightest technocrats in Colombia, and would probably push furthest in modernising the state. But can she get the votes?

Whoever wins will inherit Plan Colombia, as well as the peace talks. The Bush administration has asked Congress for some $500m in aid for next year. Most of this would be to keep the anti-drugs brigade going; $100m or so would be for Ecuador and other neighbours, to help them deal with any overspill of refugees and coca. But the aid flow could be interrupted if the United States were to become disillusioned by Plan Colombia's failure to stop drugs.

What about Europe? It has "begun to understand that Plan Colombia is not just military. If there is any frustration, it's that Europe doesn't see the drug issue as their issue," says Mr Pastrana. As a drug consumer, however, Europe has done much to add to the violence in Colombia.

The next president will have not only to build on Mr Pastrana's legacy, but also to tackle those areas that he left untouched. On the economy, the priority should be to reduce unemployment and help the unemployed. That means sorting out the regulatory tangle holding back the construction industry, as well as more thorough reform of the state, cutting public spending overall to make room for lower interest rates but boosting spending on some sectors. Political reform is also required. An electoral system under which each party presents a single list of candidates, rather than the current multitude of individual lists, would be an improvement. Media ownership needs to be widened, and decentralisation rethought to eliminate duplication of spending and to instil a stronger sense of local financial responsibility.

The risk of doing nothing

There is a broader question that both Colombia and its friends may have to face. Is the present strategy the right one? It is not hard to see that Plan Colombia could go wrong. The biggest worries are human rights and drug policy. The mounting paramilitary terror, with the complicity of mid-level army officers, could—some would argue, should—lead to foreign aid being cut off. There is indeed something odd about an aid programme which in practice concentrates on attacking the guerrillas while apparently ignoring the paramilitaries: both are equally involved in drugs. And there is little reason to believe that Plan

Colombia will lead to a sustained reduction in the overall flow of cocaine to the United States.

But nor is doing nothing an option. For Colombia, the overriding challenge is to provide security for all its citizens—replacing legalism and extra-legal violence with the rule of law. It is difficult to see how that can be achieved without stronger armed forces, especially since they now face a war on two fronts. But Colombia cannot achieve peace by military means alone. Establishing the rule of law means more and better police forces, prosecutors and judges, as well as soldiers.

It also involves a political settlement, through the peace process. But there are limits to what is negotiable. It would be unwise to redesign the country's institutions at gunpoint. So what can the government offer? Agrarian reform, certainly; and, after hostilities are over, the chance for rank-and-file guerrillas to join local police forces, perhaps. But the most important thing is a guarantee of the guerrillas' right to participate in democratic politics, without threat to their lives, and on equal terms.

Outsiders have a vital role in weaning the guerrillas off their political maximalism. As well as on drugs, Colombia's conflicts have thrived on the country's introversion—a trait shared by business, politicians, soldiers and guerrillas alike. So "internationalising" the conflict might help to end it.

But if Colombia is to emerge from its turmoil, the main effort has to come from its own leaders. Too many wealthy Colombians still delude themselves that the paramilitaries represent a solution rather than an exacerbation of the problem. The biggest danger remains that of a spiral of violence in which a future government colludes with vigilantism and the guerrillas respond with yet more kidnapping.

It need not be like that. Colombians face several more tough years, but their country's history includes under-appreciated successes, as well as continuing problems. If Colombians make intelligent choices, and the outside world gives them the support they need, a stronger and more democratic nation state may yet emerge.

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Acknowledgements

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After the flood

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From The Economist print edition

Bad news from Cisco and many of its peers shows that no corner of the technology industry is immune from the downturn

Get article background

JOHN CHAMBERS, chief executive of Cisco Systems, is known to choose his words carefully. So it was telling that, during a conference call on April 16th with Wall Street analysts to give a warning of sharply lower results, he described his company as the victim of a natural disaster. In the networking business, he said, the equivalent of a once-a-century flood would be a drop in sales of 10-15%. How, then, to describe the first full quarter of this year, when his company expects sales to fall by 30% over the previous quarter? "We never built models to anticipate something of this magnitude," Mr Chambers admitted.

His candour confirmed what industry analysts have been worrying about for some time. After an unprecedented boom, information-technology companies are now in the midst of an unprecedented bust. Many of their corporate customers appear to have frozen their technology spending until further notice. Now the question is whether there are any safe havens and how long this "buyers' strike", as it is already being called in Silicon Valley, will last.

After this and next week's quarterly earnings reports it will be clearer how bad the damage is. So far, the news has not been encouraging—though there has been the odd positive surprise. Intel was one of the few firms that exceeded expectations, but even its first-quarter figures paled in comparison with previous results: revenue was down 16% from a year ago. IBM announced strong revenue growth of almost 9%, and a 15% rise in net profits.

The tech industry's woes stem not only from weak demand, but also from excessive optimism that it would continue to grow at breakneck speed—particularly in the case of Cisco, once the leading light of the "new economy". Because its orders regularly exceeded forecasts last year, lead times were getting too long; for some products, customers had to wait up to 15 weeks. To reverse this trend, Cisco ordered piles of components, in particular the customised parts that themselves have a long lead time, even though there were already signs of a slowdown.

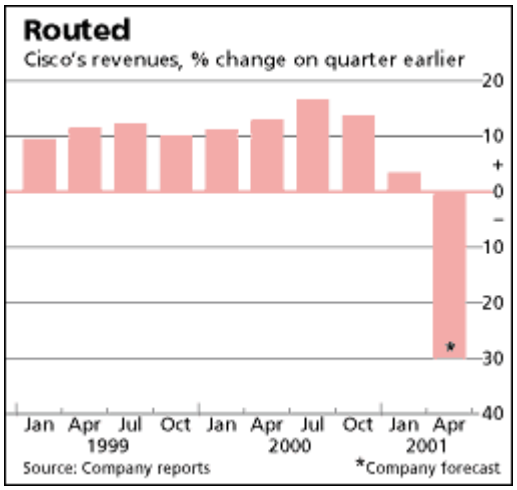
So when demand for networking gear dropped dramatically in mid-December, Cisco was particularly vulnerable. Upstart telecoms firms, which have been in trouble for some time, cut back sharply, buying 40% less Cisco equipment in the first quarter of this year than in the previous quarter. Meanwhile, dotcoms are dying by the dozen, selling off their hardly used Cisco gear at steep discounts. Spooked by the current uncertainty, and under less competitive pressure from start-ups, many old-economy companies have also stopped buying new networking equipment.

All this leaves Cisco stuck with a huge inventory, much of it custom-made parts that the firm cannot easily sell. It has more than a year's supply of some components, and plans to write off a whopping $2.5 billion in inventory—though even that will leave it with $1.6 billion-worth of components in stock. To restore its profitability Cisco will, among other things, reduce its workforce by no fewer than 8,500 people.

Not unsinkable, after all

Gone is the old idea that companies such as Cisco, which sell network plumbing, would be insulated from the demise of the Internet's frothier firms. That said, it is unlikely that all other companies will be quite as hard hit. Juniper Networks, one of Cisco's main competitors, has so far managed to continue growing. Its revenues reached $332m in the first quarter, more than five times more than in the same quarter last year. However, it also gave a warning that reduced spending by telecoms companies and Internet service providers would soon cut into its growth.

Such lucky exceptions aside, analysts have a hard time finding bright spots. Technology businesses that were also once believed to be relatively recession-proof now look nothing of the sort. Take storage products. Demand for these was supposed to remain strong no matter what happened to the economy. The volume of e-mail is always rising, firms are gathering more and more data about their customers, file sizes of everything from presentations to annual reports are increasing—and all this information needs to be stored somewhere.



Yet leading makers of data-storage products recently had to admit that they are not immune from the slowdown in technology spending. On April 11th, EMC, the dominant firm in the sector, said it will fail to meet Wall Street's expectations for the first time in five years: it will grow by 20% this year, rather than the 25-35% it had earlier forecast. The same day, Network Appliance, another storage vendor, gave a warning that revenue for the past quarter could fall by up to 25% because customers are delaying orders.

Nor is enterprise software, the complex programs that dominate corporate computing, the safe bet it once seemed. Here the argument has been, until recently, that such software is even more appealing in a downturn, because it helps companies to ride out tough times. Oracle argues, for example, that its e-business software cuts costs significantly, and claims to have saved $1 billion internally by using its own programs. Siebel, the leading supplier of customer-relationship software, maintains that its products are vital for holding on to existing customers and attracting new ones in a slump.

But spending to save appears to be a hard sell in the current climate. Siebel, for one, is evidence that fewer companies are buying these expensive packages. Although the company announced a sharp increase in profit and sales on April 18th, it said it was laying off 10% of its workforce to prepare for slower growth.

American firms are not the only ones in trouble. On April 17th Philips, a Dutch electronics and semiconductor group, reported that its first-quarter profits had collapsed and that it would make a loss in the second quarter. It blamed a sudden and "remarkable" fall in demand from the telecoms and computing industries, and said it saw no end to the slowdown. Other European companies have reported similar difficulties. Ericsson, Sweden's flagship telecoms-equipment maker, was due to announce its quarterly results on April 20th. Its shares have been under pressure amid fears that it is planning job cuts in addition to the 9,000 it has already announced.

If there is any really good news, it is limited to special cases. Dell, a computer maker, remains confident that it will outperform the rest of the industry thanks to its sophisticated supply-chain management technology and its recent aggressive pricing. And on April 18th, Apple strongly beat analysts' expectations, thanks partly to its popular new laptop, called Titanium.

Whatever their latest results, technology companies are now reluctant to predict even the near future. More than ever before, they say, there is a lack of "visibility", meaning that many customers are still rejigging their budgets, often cancelling orders at the last moment. Cisco expects revenue in the coming quarter to be flat or even to fall by 10%. But the actual result, says Mr Chambers, could end up on either side of this range.

When will things look up again? Wall Street seems to think that technology firms have hung out all their dirty washing: the day after Cisco's profits warning, both the Nasdaq and the Dow made gains (and Cisco was down only slightly). Yet that may be too optimistic. Stephen Roach, chief economist of Morgan Stanley, an investment bank, thinks that companies now realise they have spent far too much on technology, and are slashing their technology budgets.

Mr Chambers, however, still believes that the corporate Internet revolution is just starting. In the not too distant future, he predicts, the networking business will again grow by 30-50% a year. With luck, he will never see another 100-year flood. With luck.

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Yahoo!'s old-media bet

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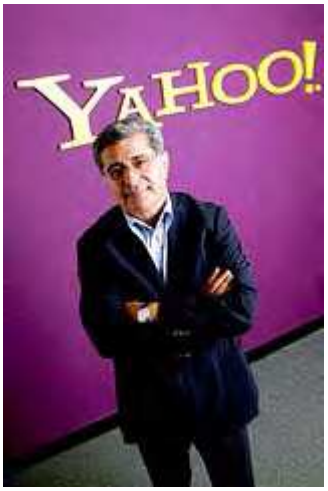
SAY what you want about the man, but many in the traditional media world found something reassuring in the appointment on April 17th of Terry Semel, a former Hollywood executive, to be the next boss of Yahoo! Back in the boom days, new media trumped old with AOL's acquisition of Time Warner. Now, after the bust, an old-media icon is going to run what was once the highest-flying of the new-media stars. That seems like fair play—and indeed a return to the natural order of things.

Reuters



Steady Semel

Is Mr Semel the answer to Yahoo!'s woes? If Yahoo! is best viewed as a conventional media company, he might be: he ran the Warner Brothers studio for 20 years and has long experience in everything from film to music. A media insider with a steady operational hand might be just what such a company needs. Yahoo!, however, is not such a company. The main reason why it is thought of as a media giant at all is that it has a huge audience and most of its revenues come from advertising; in other respects, it has more in common with a software firm or even a telecommunications company. If Mr Semel tries too hard to remake Yahoo! into the sort of media firm he is most familiar with, he could destroy the qualities that brought it Internet stardom in the first place.

The best thing about Yahoo!'s business model is that the firm does not need to create much of its own content. Instead, it uses software to repackage others' content, from financial information to wire-service news stories, combining and linking the information in ways that add value for its users. Compared with huge newsrooms, software and servers are cheap; long after the lights are out in its office, Yahoo!'s robotic content machine is still working. The result is impressive, software-style operating efficiencies: last year, Yahoo! took in revenues of $1.1 billion with 3,500 employees, a ratio better than almost all media firms. By comparison, Knight Ridder, a newspaper publisher, has more than six times as many employees but less than three times the revenues.

Mr Semel is a creature of a world where a few stars, jealously courted and held, give media firms unique, must-have hits. Yahoo!, by contrast, is all about using technology to turn commodity content into value-added services. Mr Semel has not said much about what he will do at Yahoo!, but his history and known skills suggest that he will take it more towards creating its own content (one of Mr Semel's few forays into Internet media was an investment in Digital Entertainment Network, which went bust trying to do original video programming on the web).

If, indeed, this is his plan, then Yahoo!'s business model is in for a jolt. That is not necessarily a bad thing—AOL Time Warner is a similar hybrid—but it would mark a dramatic departure from Yahoo!'s present path, after just two bad quarters. Is the outlook for online advertising really as bleak as all that?

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Indian power

Enron, and on, and on

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IT IS the world's largest trader of energy, and this week it announced a glowing set of first-quarter results, with revenue quadrupling and profits up 20%. But Texas-based Enron Corp cannot seem to shake off its Indian headache. For the umpteenth time in six years, it has become locked in a dispute over its power project at Dabhol, in the Indian state of Maharashtra. And again, the dispute is with its sole customer, the Maharashtra State Electricity Board (MSEB).

EPA

It must be sorely tempted

A government-committee report published on April 12th recommends renegotiation of the project to reduce the price of its electricity, even though this has already been renegotiated once, in 1996, shortly after construction work started. To "protect its rights", Enron has started arbitration proceedings against the authorities and has issued a "political force majeure" notice against the MSEB.

Perhaps most important of all, Enron has asked the finance ministry to honour a financial guarantee that the ministry provided for the project, in order to recoup $47m that the MSEB failed to pay for power in December and January. The MSEB has lodged an $86m counter-claim against Enron for failing to build up generation to full load quickly enough on one day in January. Suspicions that the MSEB is trying to avoid paying its dues prompted Richard Celeste, America's ambassador to India, to suggest that Maharashtra was "taking refuge behind legalities".

The mood is not yet calm enough to negotiate a way out—although there is some talk of the state or a private investor buying out Enron, which is losing interest in owning power plants in poor countries. Enron's force majeure notice as good as accuses the state government of slowing the project for political reasons. Enron says that it is willing to discuss the report, but that there is no basis for proper talks until Maharashtra restructures the MSEB's parlous finances and thus gives the project a chance of surviving its planned 20-year life without further crises. Government officials are repeating accusations thrown around in the mid-1990s that Enron is behaving arrogantly.

But India too has much to lose. Suresh Prabhu, India's power minister, insists that the dispute does not reflect any "anti-foreign-investment attitudes". However, if it is not resolved soon, it could do further harm to India's already blighted image as a destination for foreign direct investment (FDI). India has long hoped to attract up to $10 billion of FDI a year, but it peaked in 1997-98 at $3.6 billion and last year was down to $2.1 billion. That compares dismally with other Asian countries. The shortfall is due mainly to India's failure to turn large infrastructure proposals into actual projects. Plans for power and oil-refining projects with nearly $20 billion of FDI have been approved in the past decade, for instance, but only $1.6 billion has actually been invested—and a large amount of that went to Dabhol.

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Energy technology

Beyond the bubble

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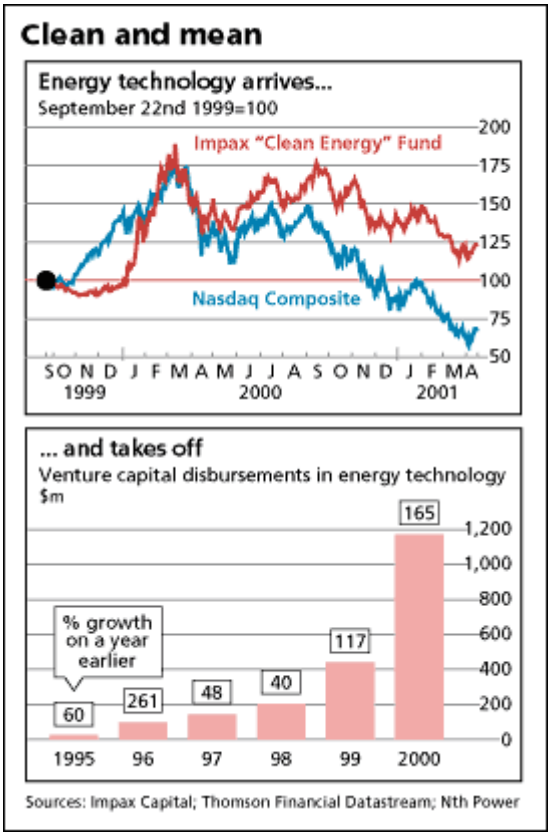
Is energy technology the next big thing?

TECH is in trouble, right? After all, the Internet boom has turned spectacularly to bust, and the Nasdaq is far below its peak. Yet there is one corner of the technology world that may be the exception: energy technology (ET).

This newish sector consists of a rag-bag of companies at the innovative end of the stodgy electricity industry. ET ranges from micropower, such as fuel cells and microturbines, to renewables and snazzy software, such as that used for sophisticated metering. Much of this has been in development for years, but recently ET seems to have become almost as fashionable among investors as the Internet once was.

Investment has been flooding in: Britain's Impax Capital, Switzerland's Sustainable Asset Management, America's Nth Power and even financial giants such as Merrill Lynch and J.P. Morgan now have big funds investing in this area. Despite the bleak market for public offerings, ET firms—including Capstone, which makes microturbines, and AstroPower, a solar energy firm—have found it relatively easy to float their shares. Britain's Innogy says that it will soon float its Regenesys division, which has developed novel fuel-cell technology.

Two years ago, few investment banks, let alone ordinary punters, even knew ET existed. As word got out that information-technology gurus such as Paul Allen and Bill Gates were putting money into the sector, the big banks began to take it more seriously. However, as the first chart suggests, investors only began to view ET as a technology play with the much-hyped offering in November 1999 of Plug Power, a fuel-cell firm. A flurry of other public offerings followed. Investors piled in, regardless of whether they could distinguish a fuel cell from a jail cell, and ET shares rose strongly, tracking the Nasdaq for months.



That eventually had its drawback: the Nasdaq's collapse pulled down ET shares. Masroor Siddiqui of Goldman Sachs reckons they had a combined market capitalisation of $40 billion-50 billion at their peak, but are worth under $20 billion now. That is painful, but hardly the implosion that dotcoms suffered. The main reason is that ET is unlike the Internet in one important respect: it takes much more than two bright kids in a garage to make energy technology work. As investors began to understand this last year, the sector and the Nasdaq parted ways. This divergence accelerated as industrial giants such as ABB, DaimlerChrysler, GM, Texaco and Toyota unveiled ET investments.

The really big breakthrough came in December: California's electricity crisis. Thanks to a botched deregulation of the power sector, that state has endured a series of outages that have cost businesses vast sums of money. As its woes have dragged on and on, investors have been reminded of the fragility of America's creaking electricity grid and the strains introduced by deregulation—as well as the dramatic solutions offered by various energy technologies. "California has been a giant wake-up call for investors," says Paul Lancaster of Ballard Power Systems, a Canadian fuel-cell pioneer.

Interest has grown in technologies that bypass the grid altogether, such as micropower. As part of their response to the crisis, Californian officials are signing long-term contracts to buy power at prices several times historical levels: at the new level, even fuel cells can compete. The crisis has also prompted state and federal officials to introduce legislation that would remove obstacles to micropower.

One big winner in all this has been Capstone. Ake Almgren, the company's boss, says that there are two main reasons for this: Capstone's microturbines can be deployed quickly—within eight weeks of an order, he claims—and precisely where the demand is, which gets around bottlenecks on the grid.

California or bust

There is a snag, however. The California crisis may not be entirely good news for ET, for two reasons. One is that the hype may be coming just a little bit too soon. Anthony Earley, the chairman of DTE Energy, a big American electricity concern that owns the Detroit Edison utility, gushes that ET will be the main driver of future growth for his firm. DTE has put money into energy venture-capital funds, which have stepped up their investments dramatically in the past year (see second chart, above). It has also taken direct stakes in firms such as Plug Power. However, even Mr Earley concedes that the timing of the California crisis is awkward, as most ET firms are not yet ready for the commercial market. "We just wish we had product right now, because we could sell a gazillion of them," he says.

The ironic result is that the biggest beneficiary so far of the trend toward distributed generation is probably an old-economy company: Caterpillar, the world's biggest manufacturer of diesel generators. The firm's sales of those durable but dirty little engines had already been growing by 20% a year since 1996, but have now received an added boost. Caterpillar has even embarked on a new strategy: now, says James Parker, head of its electric-power group, instead of merely selling machines, it will offer to operate and service them on site—and sell guaranteed power output.

Even Caterpillar may be transforming into an ET firm soon, however. Mindful of diesel's foul emissions, Mr Parker says his firm is shifting rapidly to cleaner micropower: within a few years, natural-gas units are expected to make up 30-40% of his division's sales. Might Caterpillar ever distribute squeaky-clean fuel cells through its vast dealer network? Mr Parker is cagey, but his reply is revealing: "We are technology-neutral. Whatever our customer needs, we will provide a solution." If, as rumours suggest, Caterpillar really is looking into such investments, then fuel cells would hit the big time. Christine Farkas of Merrill Lynch says that Caterpillar, along with other established firms such as GE and ABB, is likely to play an active role when the fragmented ET industry eventually consolidates.

There is another reason why California's crisis may not prove an unmitigated boon for ET, argues Steven Taub of Cambridge Energy Research Associates, a consultancy. The relaxation of environmental rules, in order to get more power plants online, will not help the cause of clean micropower. Nor will speeding up the approval process for traditional plants: a single 500MW plant can crank out more power than 16,000 micro-turbines (several years' output for Capstone). "Many of the potential vaccines against the 'California flu' could undercut the opportunity" for ET, says Mr Taub.

These are pitfalls, to be sure, but on their own they are unlikely to do more than delay for a couple of years the arrival of the most promising energy technologies. As Mr Taub points out, however, there is a more worrying possibility: a backlash against deregulation so fierce that it stalls the move towards competitive markets in electricity. If that happens, then it would not be merely ET that loses. Everybody

would.

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Face value

Flying Dutchman

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From The Economist print edition

John Fentener van Vlissingen fled a powerful family dynasty. But he has not been able to escape questions of family ownership and succession

ON A recent flight, John Fentener van Vlissingen spotted one of his own employees settling into business class and hauled him back to economy: "I told him to report to me the next day," he recalls. "Nobody flying in Europe goes business class, me included." Given his pedigree, it is odd that Mr van Vlissingen likes to fly in the cheap seats. Indeed, for a billionaire and the scion of one of the Netherlands' most powerful corporate dynasties, it seems downright penny-pinching. But Mr van Vlissingen is merely practising what he preaches. WorldTravel BTI, which is part of BCD, his private holding company, helps corporate America to clamp down on its second-biggest expense after personnel: travel.

Sales at WorldTravel BTI have grown by 50% a year since its foundation 13 years ago. Although few people have heard of it—or indeed of Mr van Vlissingen—it is now the third-biggest business-travel group in the United States after American Express and Carlson Wagonlit (see chart). Mr van Vlissingen's holding company also owns and part-operates the online system behind Microsoft's Expedia ticketing arm, an "offsite" airport parking business and a real-estate company. This year, it is expected to earn revenues of around $5 billion.

As the economic downturn bites, companies are consolidating their business travel with big, international networks such as Mr van Vlissingen's. In the past 18 months, his group has won 15 global accounts (the average before was two new accounts a year), including those of PepsiCo, De Beers and Deloitte & Touche. By switching from 110 separate agencies to WorldTravel BTI, Deloitte hopes to save $40m a year. WorldTravel BTI's technology allows other managers to be as vigilant as Mr van Vlissingen. "Our systems let clients keep an eye on their employees on the road," he says, "down to which seat on which airline they are on and whether they are sticking to the designated travel policy."

At first glance, playing the part of corporate policeman does not seem to suit this jovial 62-year-old. After all, he spent the first half of his life on the wrong side of authority, rebelling against and then escaping from the dead weight of family tradition. Mr van Vlissingen grew up surrounded by money, success and achievement. His grandfather not only ran SHV, a Netherlands-based coal and energy company that today is one of Europe's largest family-owned conglomerates, with turnover of *euro*9.2 billion ($8.1 billion). He was also the co-founder of several famous Dutch corporations including Hoogovens, a steelmaker; Akzo, a chemicals group; and Fokker, an aircraft manufacturer. Mr van Vlissingen's father added the Makro cash-and-carry chain to the family stable. His two brothers still run SHV today.

In reaction to all this high-minded, Calvinist striving, Mr van Vlissingen turned into something of a black sheep. When he was 16, he was sent to a boarding school in England "because my father thought I was having too much fun...He thought I had to get serious." Within an hour of arrival, he was in detention. Nor did he bother with university, unlike his brothers.

Worse was to come. Instead of joining the family business—"my father was in shock; he couldn't accept it"—Mr van Vlissingen took off to Wall Street to learn about what really interested him: the gyrations of

the financial markets. But the family genes were stronger than he imagined, and working for someone else proved unsatisfying. Even while he was still a banker, Mr van Vlissingen convinced his employers—at that point Pierson, a Dutch broker—to let him set up his own business as a sideline.

This new company was the germ of BCD, which Mr van Vlissingen founded in 1975 in, of all places, Atlanta. “I loved the relaxed southern culture back then,” he says. “Deals could be done on a handshake, you could trust people. I felt very much at home.” Today, as he divides his time between Atlanta, New York and Curaçao—where BCD is incorporated—Mr van Vlissingen, who describes himself as “half American”, seems to have finally escaped his family and his European roots.

Far from it. In fact, he has come full circle. The rebel has matured into a family patriarch with a substantial empire to pass on. The capitalist businessman, due to retire in three years, has developed an obsession with trying to keep things in the family. As he admits: “I now know how my father must have felt. The most important thing to me is to pass on what I have built to my children.” But what if the children do not want it? This is precisely the issue facing countless family-controlled businesses—from Rupert Murdoch’s News Corp to Germany’s *Mittelstand*—as the original owner-managers come to the end of their working lives.

In Mr van Vlissingen’s case, the solution is far from obvious. His 33-year-old son runs one of BCD’s divisions, but has indicated that he is not prepared to take the reins of the holding company yet. Meanwhile, Mr van Vlissingen’s two daughters and their husbands all have their own professions. So he has little choice but to bring in an outside manager for an interim period—something he is comfortable with, provided the company returns to family management. This has occurred from time to time at SHV, on whose supervisory board he still sits. He may even consider the partial flotation of some of the business units, which are professionally managed and run at arm’s length. But the idea, common in America, of abandoning the entire business to outside management and leaving his children to make their own way—as he himself did—is alien to Mr van Vlissingen. Ironically, this self-styled “American businessman” will do all he can to create his very own European family dynasty.

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Pirelli

Getting a grip

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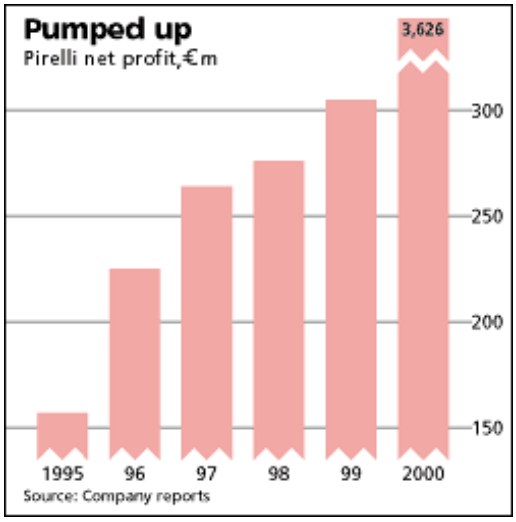
A DECADE ago, Pirelli was a sorry sight. When it closed the books on its 1991 financial year, the Italian tyre and cables group recorded a loss of 622 billion lire ($501m), capping a slump that had begun in the late 1980s. The founding Pirelli family had lost its grip, and debts had spiralled out of control. A planned merger with Continental, a German rival, had fallen through. Pirelli was saddled with businesses that needed not only radical surgery but also a new sense of direction.

Today, the contrast could not be greater. Pirelli still competes in tyres and cables. But these days its activities are characterised by their high-tech edge, notably in tyres, where a new production system run by robots is being rolled out. Pirelli is highly profitable once more (see chart), and has fast-growing businesses in fibre-optics, a sector that last year brought it *euro*4.4 billion ($4.1 billion) of one-off gains from disposals.



Behind the transformation lie two men and a commitment to research and development. The men are Marco Tronchetti Provera, who became chairman and chief executive in 1996, and Carlo Buora, a back-room expert who is credited with stabilising Pirelli's finances and then creating the conditions in which it could grow. Mr Buora was put into Pirelli in 1991 by Mediobanca, a Milanese investment bank that owned 10% of the firm's shares.

When he became Pirelli's boss, Mr Tronchetti Provera also invested his own wealth by buying 5% of the firm's shares, a stake he has gradually extended. Today he owns 30% of an unlisted holding company that owns a third of the listed Pirelli group. This makes Mr Tronchetti Provera one of Europe's wealthiest businessmen, and also means that Pirelli is largely immune from outside pressures. Many companies sitting on a cash pile of several billion euros would spend it quickly for fear that they might attract a takeover bid. Mr Tronchetti Provera, however, intends to bide his time. He says acquisitions are possible, but only at the right price. More important, *euro*850m is earmarked for capital investment this year.

Half of that money will be spent in Pirelli's telecoms-related businesses, much of it to build a new generation of fibre-optic components. The group had an extraordinary stroke of fortune last September when Corning, an American telecoms-equipment company, paid $3.6 billion for part of Pirelli's fibre-optic division. Pirelli's own valuation fell far short of that amount, but shrewd negotiating and Corning's determination to make a deal led to a windfall price (as well as to embarrassing windfall gains on stock options for Pirelli's top three managers). At the time of the deal, both sides gave the impression that Pirelli had sold all of its fibre-optic arm. Now Mr Tronchetti Provera says that it kept vital research facilities and staff to produce new technologies.

The rest of this year's investment will develop MIRS, an automated tyre-production system that is another fruit of Pirelli's long-term commitment to research. This system is much more efficient than traditional labour-intensive tyre factories. Pirelli is betting that it can use MIRS to increase its share of the high-end tyre market. "In the 1980s, our mistake was to think that we had to be big in tyres," says Mr Tronchetti Provera. "Now we know that it pays to focus on quality and on growing sectors of the market that rely on high-tech components." MIRS is already operational in Italy and Germany. At the end of March, the first American production units were announced—after a diplomatic pause following the closure of a conventional tyre plant in California.

Pirelli cannot boast a perfect record. Analysts say that, despite the Corning deal, it is still seen by the stockmarket as mainly a tyre maker, an image that consigns it to an unfashionable peer group. It is also unlikely that another Corning is waiting in the wings, no matter how clever Pirelli's scientists. For Mr

Tronchetti Provera, though, this is merely the latest test of his belief in long-term research and development. His approach has paid dividends and could deliver more in future. Rivals should heed the lesson.

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Pharmaceuticals

Drug-induced dilemma

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POWERFUL medicines can have powerful side-effects, sometimes clouding judgment or blunting reactions. As the public debate over how to get expensive rich-world medicines to poor countries shows, this is as true for those who make the drugs as for those who take them.

The latest case in point is a South African trial, in which 39 multinational pharmaceutical firms sued the country's government. At issue was a 1997 South African law that allows the government to obtain cheaper versions of expensive, branded drugs—particularly those to treat AIDS—from sources other than the patent-holders. The drug companies have argued that the law is unconstitutional and violates their intellectual-property rights; South Africa's health ministry charges that millions of people are dying because the anti-retroviral drugs sold by such firms are too costly, and says it is obliged to seek alternatives in the interest of public health.

The hearings were scheduled to start on April 18th after an adjournment last month, but were called off after the drug firms decided to back down and agreed to pay the South African government's legal costs. In the court of public opinion, however, the companies lost this battle long ago. To much of the international press, this has been a clear-cut case of nasty profiteers clinging to their patents for dear life while the sick in poor nations suffer.

The truth is not quite so simple. That poor people lack access to expensive medicines is the fault not just of high drug prices, but also of poor-country governments, that fail to invest much in health care, and rich-country donors, that until recently devoted little of their overseas aid budgets to such problems. Indeed, in the past year, drug firms such as Merck have drastically cut the price of their anti-retroviral medicines to rival those of generic manufacturers; some, such as Boehringer Ingelheim, have offered to give theirs away.

Rather than earning the companies international admiration, however, such largesse looks to many like the panic reaction of an industry on the defensive, pressured into making concessions. Drug companies may not yet be as reviled as tobacco firms and arms manufacturers, but they have not done well out of this fray. How did the industry get itself into such a mess?

To an extent it was caught unawares, as its focus has long been on Europe and America, which account for two-thirds of the world's $363 billion drug market, rather than on developing countries. Aside from a few philanthropic initiatives, how to make drugs available to poor countries was simply not on the corporate agenda.

As a result, companies have tended to take the same hard line on patents and pricing in poor countries as they have in the rich world, without acknowledging that there are places where rich-world rules should not apply, says Ben Plumley, formerly with GlaxoSmithKline and now a policy adviser to UNAIDS. Behind this tough approach lies a desire to protect their lucrative, rich-world markets at all cost. Opposition to the proposed South African law, for example, stemmed not so much from what will be lost in Africa but what might happen if other, more affluent countries decide to follow suit.

Drug firms have also underestimated the power of interest groups to mobilise support from the public and politicians. This week, for instance, Médecins Sans Frontières, an aid agency, presented the companies in the South African trial with a petition containing 250,000 signatures to drop the case. In February, Oxfam, an overseas development charity, launched a campaign to pressure GlaxoSmithKline into changing its policy on patent enforcement in poor countries. Heavy lobbying has also pushed the issue on to the political agenda, especially in Europe—though it has not yet led shareholders to ask tough questions of company executives.

Drug companies have also assumed, wrongly, that the very nature of their business—making life-saving medicines, rather than toxic chemicals—would ensure public approval, according to Peter Zollinger of

SustainAbility, a consultancy. But many of them have failed to acknowledge that the issue is not just the price of drugs, but fuzzier things such as social responsibility and accountability.

Mr Zollinger argues that many drug firms have failed to address this broader issue of good governance, instead treating drug access as a public-relations problem that can be patched over with a few more price discounts or one-off drug donations. But this does little to satisfy groups such as Oxfam, which want longer-term solutions, such as freeing up poor-country markets to generic competition. Despite their capitulation in the South African courts this week, drug companies have a long way to go to satisfy their critics.

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Pill pushers

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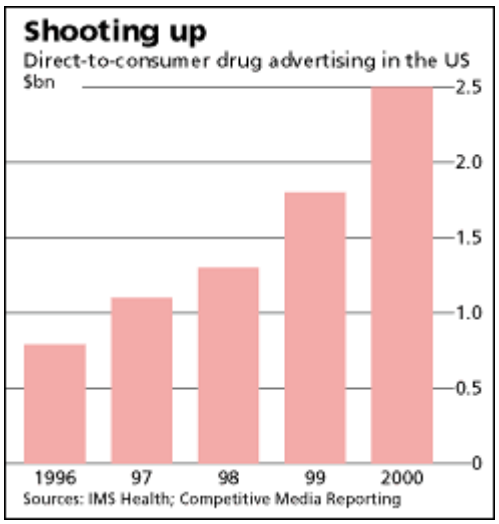
WHEN it comes to brand recognition, few would bet on Claritin against Coke. But over the past couple of years Schering-Plough's little white anti-allergy pill has had more advertising dollars lavished on it in America than the famous red can. Drug companies are becoming highly aggressive marketers. In 1991, the industry spent $55m on advertising potions directly to American consumers. By last year, the figure had risen to $2.5 billion (see chart).

Although direct-to-consumer advertising (known as DTC) has been legal since 1985, it took off only in 1997, after America's Food and Drug Administration (FDA) allowed pharmaceutical companies to name both the drug and the disease it treated in the same commercial without having to reel off every single side-effect too. DTC has proved a bonanza for the industry: one analyst estimates that Schering-Plough has generated $3.50 in extra Claritin sales for every advertising dollar spent on the drug.



But this marketing explosion is having side effects of its own: a rising chorus of complaints by doctors, consumer groups, health maintenance organisations (HMOs) and other insurers. This recently startled the FDA into a review of its decision to relax the rules, though the watchdog insists it was planning a rethink anyway.

Doctors' main worry is safety—and the threat to their position as experts. They complain that patients demand potentially unsuitable drugs they have seen on television. Not every doctor stands his ground, however. *Prevention*, a magazine, found in 1999 that 87% of patients who asked for an advertised drug were prescribed it. Pharmacia's Celebrex, an arthritis treatment, hit $1 billion in sales even before clinical-trial results were fully published, because it was marketed as a wonder drug.

The other big concern is cost. Maureen Sullivan, senior vice-president at Blue Cross/Blue Shield, a large HMO, points out that only 6% of the people taking Celebrex (annual cost $900) really need it. For the rest, a course of Ibuprofen, at $24 a year, would do just as well. Not surprisingly, prescription-drug costs are the fastest-growing part of total American healthcare costs, rising by almost 20% a year, double the growth rate of other healthcare services. This is driven, at least in part, by the drug companies' deliberate policy of concentrating their firepower on a small group of blockbusters. Ten drugs accounted for 41% of all DTC spending in 1999.

This is creating branded-drug franchises, supported by line extensions that help to prolong patent life. AstraZeneca, for example, is marketing both its ulcer drug, Prilosec, and its successor, Nexium, as "the purple pill"—an easy slogan for consumers to remember. The effect is to squeeze out cheaper, off-patent medicines. Nancy Chockley, president of NIHCM, a health think-tank, argues that "the only way to get real price competition is to let in more generics. But building powerful drug brand families shuts out competition. It's like giving Coke and Diet Coke patent protection." Generics currently account for barely a tenth of all drug spending in America.

In response, drug companies argue that DTC informs and empowers patients, and that taking pills is still cheaper than going into hospital. There is little doubt, though, that DTC is strengthening the industry's already tight grip on the market.

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Farming

Let them eat data

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THESE days, when Bill Northey, an Iowa farmer, harvests his soya beans, he vacuums every last bean from his combine. Mixing a few legumes between crops may not seem like a big deal, but his Japanese buyers are willing to pay a premium for purity—and for knowing exactly where their food came from. By preserving his crops' identity, Mr Northey can fetch up to 25% more per bushel.

Food crises—be it mad-cow disease, foot-and-mouth disease or rising concern over genetically modified foods—are teaching consumers throughout the world not to trust blindly what they eat. If they did not suspect it already, they are learning that much of the food industry has no solid procedures for ensuring the integrity of every ingredient.

As food fears mount, however, food companies and farmers are at last finding both the means and the motive to track and certify each link in the chain of supply, from farm to table. Food companies are demanding that their producers comply with new, rigorous production processes. One pig farmer tells how a pork packer demanded that he raise his pigs in a specific kind of clean barn; feed them in six specified phases; and make sure that, once raised and fed, the pigs left the farms at specific weights before being shipped to Japan. More rigorous standards are forcing farmers to collect and manage huge amounts of information. Once, predicting the weather was the tough technical challenge of farming; now it is database programming.

A growing number of companies have emerged to help farmers track their crops. Tim Walter, a farmer in Iroquois, South Dakota, is testing a new product from a company called IdentityPreserved.com on 300 acres of his soya crop. When his farm hands plant, spray or harvest crops, they swipe an electronic wand against a "button" that identifies the chemical or seed they are using. The wand records the date and time, the type of crop, the variety of seed and whether the seed was genetically modified. Throughout the growing season, Mr Walter uploads the data into the company's online database.

Another company, CropVerifeye.com, charges between $3.50 and $6 an acre to store and manage farmers' crop data throughout the growing season. VantagePoint.com and Farmland Industries, America's largest farmer-owned co-operative, are among companies establishing similar systems to track grain from seed to sale.

Farmers are a beleaguered bunch, who welcome any means to boost margins. Soon, Mr Walter's Japanese customers will be able to log on to IdentityPreserved.com and shop for the soya with the characteristics they want, safe in knowing exactly where their food came from and how it was raised. In return, he expects them to pay a premium.

Ultimately, this is all about decommoditising the archetypal commodity. By using technology, farmers can differentiate their crops from their neighbours'.

At the other end of the food chain, the big retailers can better distinguish their brands from those of their competitors. Despite relatively static demand, food companies continue to produce an astonishing array of new products. Mercer Management Consulting estimates that roughly 25,000 new food products were introduced to supermarket shelves in 1998, compared with about 4,400 in 1980. All told, some 350,000 food products vie for roughly 50,000 slots at the average supermarket. In the past, winning this lottery was mainly a matter of taste and marketing. In the future, it may be more about having the right agricultural pedigree—and the data trail to prove it.

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When merchants enter the temple

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The Guggenheim is changing the rules about how to market a museum. Traditional museums in America and Europe don't like the change, but many will have to go along with it if they want to thrive

MUSEUMS have never had it so good. New ones are being built all over the place, and existing ones are expanding; fund-raising campaigns have never been so successful, and visitor numbers have never been higher. Last year, for the first time ever, American museums attracted more than a billion visitors.

Corbis

Before the gift shop

As they have become more marketable properties, some museums have begun to behave in more commercial ways. And to the consternation of many old-school curators, it is a business strategy that seems to be working. The Tate Modern in London and the Guggenheim Museum in New York, two of the most openly commercial big museums, are doing particularly well.

This has forced the directors of all museums into a bout of existential questioning. How far can the commercialisation of an art museum go, they ask, without compromising scholarly integrity and the museum's mandate? Which marketing techniques are permissible, and which are off limits? Will there in future be two kinds of museum: the temples of high culture devoted to scholarly pursuits, and the entertainment centres catering to more popular taste?

These are questions that will particularly vex Henri Loyrette, who takes over this month as director of the Louvre. Until 1993, the flagship of Parisian culture was entirely state-funded. Now, the museum must find 30% of its yearly operating costs. One of the reasons for choosing Mr Loyrette, a former head of the Musée d'Orsay, was his sophisticated (and highly successful) marketing of special exhibitions at the creatively transformed railway station on the Left Bank.

He will need his astute marketing skills across the river at the Louvre, not least because he will not have much capacity to raise money there in the traditional Anglo-Saxon way—by fund-raising. The Louvre has only four full-time fund-raisers on its staff, compared with 40 at the Metropolitan Museum in New York and 15 at the Tate galleries in London.

Although government subsidies to most of Europe's museums are less generous than they once were, the museums remain public institutions largely financed by taxpayers. Most of them charge only a low entry fee, or none. The collections of art on display are considered to "belong" to each citizen. It still runs against France's Napoleonic instincts to name a wing or a room after a generous donor. The British are less squeamish on that point: there is, for instance, a Sainsbury wing at the National Gallery and a Sackler wing at London's Royal Academy of Arts—named, respectively, after a retailing and a pharmaceutical family. But a bigger difference appears on the other side of the Atlantic.

American art museums cannot rely on much direct financial help from government (although their donors enjoy tax relief). Even American museum directors of the old school are obliged to pay attention to the market, and to accommodate sponsors and donors. Just how accommodating they should be has been the subject of fierce debate in New York, a debate that threatens to spill over into Europe.

Guggenheim à gogo

The controversy is over the marketing methods of Thomas Krens, the head of the Guggenheim Museum. When the Guggenheim was founded in 1939, it was to be a museum of "non-objective painting" (museum jargon for abstract art). Figurative paintings were added in the subsequent decades as the museum became more "curatorially flexible". Mr Krens has been testing flexibility to the limits. He

is pioneering a trend towards marketing museums as places of entertainment rather than as depositories of crusty “accepted” works of art.

His methods are aggressive, even by New York standards. Three years ago, he put on an exhibition of motorcycles sponsored by BMW, a German car maker. But it was a retrospective exhibition last autumn of dresses by Giorgio Armani, an Italian fashion designer, that put Mr Krens well outside the bounds of what was generally considered acceptable. The exhibit was sponsored by *In Style*, a fashion magazine, but Mr Armani is said to have donated $15m to the museum—dubbed a “rental” fee by critics.

The Guggenheim is under particular pressure to become more commercial. Its endowment equals just about one year of its operating expenses—compared with almost 11 years at the Metropolitan Museum. Moreover, the museum needs more money because it is in the midst of an unprecedented expansion, for which Mr Krens tours the world tirelessly in search of donations. It is, in effect, being transformed into a global brand. In addition to the original museum on Fifth Avenue and the one in New York’s SoHo, there is a Guggenheim in Bilbao (designed, in famously avant garde architecture, by Frank Gehry), another in Berlin (a joint venture with Deutsche Bank), and yet another in Venice.

Las Vegas and Brazil are to be the next to get Guggenheim branches. The Venetian Resort Hotel Casino in Las Vegas is to give $30m for two Guggenheim rooms at the hotel. Yet Mr Krens’s most ambitious project is a third Guggenheim for New York, also designed by Mr Gehry, on the city’s Lower East Side. Rudolph Giuliani, the mayor of New York, was won over to this latest venture largely on the grounds that it will create thousands of jobs and millions of dollars of commercial activity in a poor part of the city. Mr Krens persuaded Peter Lewis, an insurance magnate, to shoulder almost a third of the cost of the project, estimated at $678m.

Mr Krens may be controversial, but he is pulling the crowds. The New York, Berlin, Bilbao and Venice Guggenheims together had almost 3m visitors last year. And once the Guggenheims-under-construction are finished, their total visitor numbers could reach 6m, as much as the Louvre in Paris and more than the mighty Met.

Museums in middle America have started to copy the Guggenheim’s methods. At present, more than 20 institutions are in the process of constructing a new building, spreading their franchise. The range of exhibitions is also broadening. For example, the Museum of Fine Arts in Houston, Texas, is showing “Star Wars: The Magic of Myth”, an exhibition no more related to fine arts than Mr Armani’s frocks.

Call this a museum?

Mr Krens’s peers in New York remain stubbornly unimpressed. It is less Mr Krens’s global ambitions that disturb them than what he does within the confines of the Guggenheim’s home base on Fifth Avenue.

Philippe de Montebello, the director of New York’s venerable Metropolitan Museum, is one of the leading advocates of the traditional way of running museums. “Our purpose is not to pull the crowds,” he says grandly. “Museums will lose,” he says. “They do not do Disney that well.” Mr de Montebello categorically denies being in the “entertainment” business (although that is how some would describe the Met’s exhibition of Jackie Kennedy fashion memorabilia). In his view, the job of curators is to explore and reinterpret the art collections that were the reason for the establishment of the museum in the first place.

The Metropolitan Museum is better placed to shun populism than many other museums. Quite apart from its generous endowment, about one-fifth of its yearly running costs are covered by the local government of New York. But the city’s other important art museums—the Whitney, the Museum of Modern Art and the Guggenheim—are more exposed to the harsh winds of the marketplace. They have to charge their visitors. The Whitney’s entry fee, for instance, is $10, more than a ticket to the cinema. Income from their endowments covers only a small percentage (20% or less) of their operating costs, and they receive hardly any funding from local or federal government. Other museums also need alternative sources of cash. According to the American Association of Museums, only about 60% of America’s 2,000-plus art museums have enough income from their endowment to cover their operating costs.

At the same time, museums are expanding. New York’s Museum of Modern Art (MOMA), like the Met, needs more space because much of its art is currently in storage and has hardly ever been exhibited. It cannot put certain favourites—like, say, Claude Monet’s waterlilies—into storage because so many visitors come specifically to see the hardy perennials. Meanwhile, true to its mission as a museum to

promote modern art, it keeps adding works of contemporary artists to its existing collection. The MOMA has done well: Glenn Lowry, the director, is in the midst of an ambitious fund-raising campaign to finance an expansion that would double its gallery space. Needing a total of about $700m, he managed to raise $475m in just two years. But most museum directors feel, as does Mr Lowry, that their work is a constant tug-of-war between artistic mission and commercial consideration.

Over the past decade, corporate donations have started to dry up, and income from the museums' own commercial activities has also stopped growing. According to the Alliance for the Arts, a not-for-profit organisation that gathers information about the arts in New York, revenue from gift-shop sales, space rentals and the like levelled off after 1992, while corporate funding declined by 30% between 1982 and 1998.

The director at the Whitney Museum, Maxwell Anderson, is more anxious about the practical implications of certain marketing techniques than about the questions of appropriateness that trouble Mr de Montebello. Like many of his colleagues, he is worried about the policy of the new Bush administration towards museums. Already, there is little enough help from the federal government for the arts. The National Endowment for the Arts received $150m in federal funding last year. "We all largely depend on individual philanthropy," he says.

One concern is the tax treatment of American art museums. They fall under a category of non-profit organisation that is tax-exempt and that qualifies for charitable giving. Museum shops pay an unrelated business income tax on the sale of a portion of their product line. If museums start to behave too much like businesses, Mr Anderson fears that these fiscal privileges could come under threat. He is also nervous about the abolition of estate and gift tax, a proposal vetoed by Bill Clinton but revived by George Bush during the election campaign. Charitable giving is deductible from taxable estates and, as a result, wealthy people often bequeath large sums to charities or museums rather than incur tax on their estates when they die. Remove the tax and the bequests would also diminish.

Despite their dependence on private donations, big museums still try to set limits to what they offer donors in exchange for cash. Mr Anderson, who chairs the group on museum ethics at the Association of Art Museum Directors, insists on the self-imposed rule among big museums in America that they will refuse any gifts or loans with strings attached. Collectors would often like to determine how their artworks are displayed, or demand a guarantee that "their" art will not be lent to other museums. Giving in to one of these special requests would, it is maintained, open a Pandora's box of unacceptable demands.

The director of the Brooklyn Museum of Art broke the rule and annoyed colleagues when he put Charles Saatchi, a collector of British art, alongside the museum's experts to curate an exhibition of controversial British art that Mr Saatchi sponsored. Mr de Montebello, on the other hand, cancelled a show of Coco Chanel's work at the Met, sponsored by Chanel, when Karl Lagerfeld, the head of the illustrious French fashion house, demanded a say in the conception of the exhibit.

However, what was off limits yesterday can become tomorrow's norm. The Whitney has several sources of income: from its museum shops, for example, its travelling exhibitions, its membership programmes, its partnerships with corporations, and even the renting of its hallowed precincts for parties. Nowadays that is all conventional stuff, but in 1973 the Whitney was the first large American art museum to establish branches. "They called us McWhitney at the time," says Mr Anderson. The danger is that the gap between museums and commercial galleries—or even exhibition halls—will shrink in the scramble to raise cash.

Britain in between

Museum directors in Britain are under far less commercial pressure than their colleagues in America. But although they ultimately rely on state coffers, their managers increasingly respond to the marketplace. Subsidies for museums have fallen in real terms: the government now provides 70% of the funding for the British Museum, down from 80% in 1993. The museum has to fill the gap with increased revenue from commercial activities, sponsorship and donations.

In practice, the British Museum has proved adept at the sponsorship game. The museum recently raised £100m ($144m) for the Great Court, a glass-covered courtyard designed by Sir Norman Foster that opened with great fanfare last December. This was the most successful fund-raising campaign for a museum in Britain to date. While lottery grants and a donation by the Weston family (owners of

Associated British Foods) provided the bulk of the money, Walter Annenberg, a former American ambassador to Britain, was persuaded to sponsor the Annenberg Information Centre, an online museum, and Paul Hamlyn, a wealthy English publisher, paid for a new public library. The museum is now in a second round of fund-raising, and recently started to solicit sponsorship of the 3,312 glass panels in the Great Court via the Internet.

Such marketing methods are spreading. British museums are financed by a two-tier funding system, with the national government supporting 17 national galleries and museums, while local government takes care of the rest. Two recent reports have shown how important good marketing is to the success of a museum.

The first, published on April 2nd by the Department of Culture, Media and Sport, shows just what a triumph the Tate Modern, an extension of the Tate Gallery that opened last year, has been. The new museum accounted single-handedly for 4m of the 5m additional visitors to the institutions financed by the department. The second, by Adrian Babbidge of the East Midlands Museums Service, points out that visitor numbers to Britain's locally financed regional museums have stagnated or even declined. He thinks that many regional museums may have to close because of underfunding and a lack of management skills and experience.

If its marketing is clumsy, even a well financed national museum with a world-famous collection can find itself in trouble. According to a recent report by the National Audit Office, London's Victoria and Albert Museum (V&A) receives a government subsidy at the rate of £24 per visitor, one of the highest per-capita subsidies in the country. This is on top of a "voluntary" entry fee of £5, an exception among national galleries and museums in Britain that have traditionally been free. The V&Ahas tried unsuccessfully to reposition itself as an exciting museum of design. It has also turned to architecture to spruce up its image, but plans for a futuristic "spiral" construction by Daniel Libeskind, the architect who designed the Jewish Museum in Berlin, have been savaged by critics and local residents on the grounds of both aesthetics and cost. So far, these tactics have failed.

Few art museums can now rely on their endowment alone. Exceptions such as London's Wallace Collection and New York's Frick Collection have special circumstances. The widow of Sir Richard Wallace bequeathed to the nation one of the finest collections of French art from the 18th century. She demanded that it remain "unmixed with other objects of art", making it impossible for the museum to expand. In addition, because it cannot lend its collection, visitors who want to see Hals's "Laughing Cavalier" have no alternative but to visit it. The Frick, a small museum in the former mansion of Henry Clay Frick, an industrialist, has an endowment roughly large enough to cover its operating costs. It does not need aggressive marketing.

If they want to expand, art museums will have to persuade visitors to pay, or to pay more, perhaps for new services. And they will need ingenious new ways to attract benefactors. Inevitably, this will mean some concessions to commercialism. But, with good marketing, it should be possible to persuade more people to pay to visit exhibitions of Vermeer or Monet, or even to pop into smaller galleries. Exhibiting motorcycles is not the only way to attract a crowd—and scholarship and big audiences are not necessarily alternatives.

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Economist.com FINANCE & ECONOMICS

Waiting for the midnight hour

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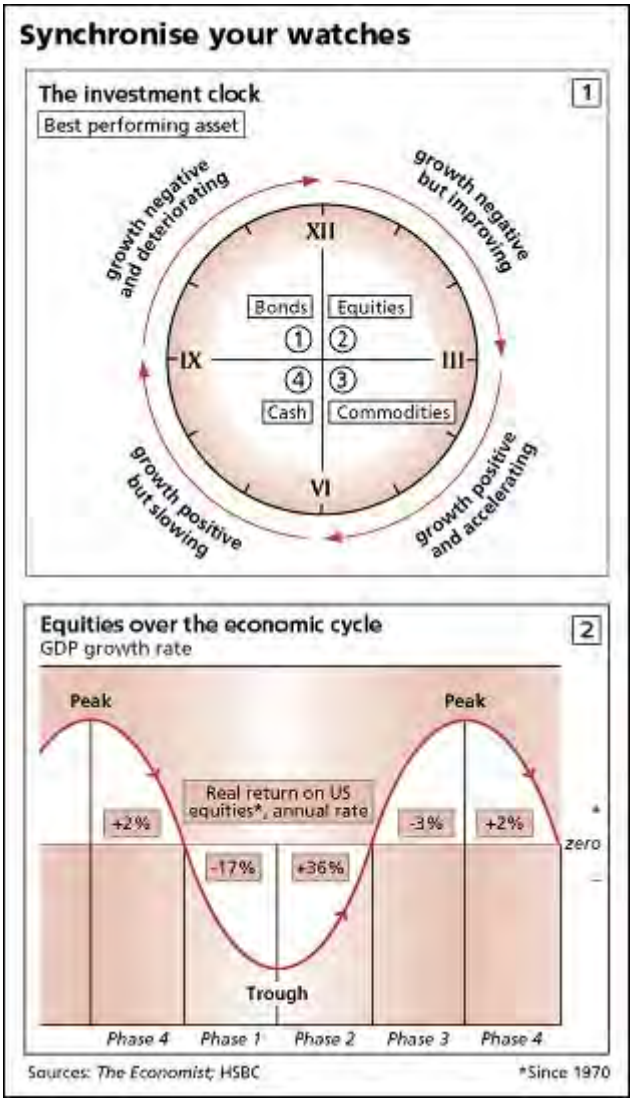
Has the stockmarket bottomed? One way to answer the burning question is to study the investment clock

BY EARLY April, America's Nasdaq had fallen by nearly 70% from its peak, with the S&P 500 down by almost 30%. April is supposed to be the cruellest month, yet even before the Federal Reserve set stockmarkets ablaze by cutting interest rates by half a point on April 18th, shares had been rallying for two weeks. The Nasdaq has now climbed back by almost 30%, and the S&P by 12%. Some much-followed shares have done far better: Amazon's price has doubled over the past two weeks. Investors want to believe that the worst is over and that the next bull market is now under way. Possibly, Alan Greenspan wants them to believe that too.

The fall in the S&P 500 in the year to early April was the second-biggest drop (over a 12-month period) since the 1929 crash, beaten only by the notably savage bear market of the early 1970s. However, just because share prices look cheaper does not mean they will immediately rebound. Timing is all.

Financial markets, like economies, move in cycles. Bonds, equities, commodities and cash are affected in different ways by economic growth, and by changes in short-term interest rates. There tends to be a period over the economic cycle, distinct enough with hindsight, when each asset outperforms the others. No two cycles are identical, of course, but the relative performance of assets follows a familiar, if rough, pattern.

Bond prices typically start to outperform other assets at least a year before the trough of the economic cycle, just before interest rates begin to fall—as in 1990 and 2000. Share prices usually take off about six months before the economic trough, when monetary policy has become laxer. As the economy strengthens, and interest rates start rising again, bond prices fall, while equity prices continue to climb on the strength of rising profits. Then, as the expansion nears its peak and inflation rises, commodities and property fare best. Finally, as central banks raise interest rates to quell inflation, cash is king. This pattern can crudely be presented in the form of a clock (see chart 1): as we move around the dial, each asset has its moment. The investment clock says nothing about the size of future asset-price movements, but it may help people to understand their timing.



So where are we on the clock? For the recent bounce in share prices to be sustained, the American economy must already have reached 12 o'clock, and be within six months of the end of the downturn. A study by Peter Oppenheimer, global strategist at HSBC, examines the equity market in more detail over the economic cycle. It breaks the cycle into four phases based upon growth rates in GDP (see chart 2), measured quarter-on-quarter. These phases are of varying length, but they more or less correspond to the four quadrants of the clock. In phase one, growth slumps below zero until it reaches the trough of the recession. In phase two, growth is still negative, but output falls at a decreasing rate. Phase three sees accelerating growth. In phase four, the economy slows from its peak rate of growth to zero growth.

Over the past 30 years American stockmarkets have always fallen in phase one, as the economy slumped, but in phase two (when the economy is still contracting, but less steeply) shares have surged, with an average real gain of 36% at an annual rate. Phase two is relatively brief, lasting on average only six months—ie, it is often all but over before a recession has officially ended. It is heart-rending to miss: the initial six-month rally in share prices has typically accounted for as much as half of the total stockmarket gain in the first three years of a bull market.

The lesson from this is that the best time to buy shares is not when the level of GDP has reached a trough, but when its rate of decline has bottomed out: stockmarkets, after all, are in the business of discounting the future. Bull markets can begin when output and profits are still shrinking. The darkest hour is just before dawn. Shares bottomed in October 1990, six months before the economy.

For anyone who, like most economists, believes that the downturn in America will be brief and that the economy will be recovering strongly by the fourth quarter, now is indeed the time to buy. For those who believe that America is heading for a more prolonged recession, as overcapacity and high debts hold back spending, then the current market rally will prove to be a false dawn.

Liquid lunch

The investment clock is a useful framework for testing investment decisions. But is there a global clock, or just one for each country? After all, stockmarkets these days are increasingly moved by worldwide factors.

This is why many analysts use global liquidity as their investment yardstick. One investment bank, CSFB, calculates a “global excess liquidity” index: this combines real money-supply growth in the OECD area minus growth in industrial production and changes in real interest rates. It attempts to gauge the amount of excess liquidity, surplus to the needs of the real economy, that is potentially available to be invested in financial markets. The index has surged this year as most central banks have eased.

Still, a bull market requires more than liquid refreshment: shares must also be undervalued. The price/earnings (p/e) ratio on America’s S&P 500 is still historically high, at just over 20 at its low two weeks ago. That compares with 10.5 after the October 1987 crash, 12.6 at the start of the 1990-91 recession and a long-term average of 15. However, an alternative measure, the gap between the earnings yield (the inverse of the p/e) and real yield on government bonds, suggests that most stockmarkets now look cheap relative to their average of the past decade.

But are they cheap enough? After a big overshoot on the upside, share prices can undershoot by as much on the way down. What is more, profit forecasts still look unduly optimistic. According to First Call/Thomson Financial, analysts’ forecasts imply flat profits this year, but a staggering 17% increase in 2002.

Mr Oppenheimer of HSBC, a long-time bear, reckons that shares are now looking cheap in relation to bonds. He expects shares to bounce in the second half of this year, but then follow a prolonged period of low returns as growth in output and profits proves disappointing in relation to the recent past. He reckons that it could take ten years for the Nasdaq to regain its peak, two years for the broader indices.

The judgment about whether the market has bottomed hinges on your view about the shape of the downturn. The longer you think the downturn will last, the greater the reason to put off getting back into the market. Most analysts are now working on summer time, hoping they haven’t turned their clocks forward too soon.

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A fruity peace

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AFTER nine years of trade warfare that blew hot and cold, America and the European Union agreed last week to a new regime for importing bananas into the EU. The European and American trade supremos, Pascal Lamy and Robert Zoellick, personal friends since working together at past G7 summits, sound relieved. They may not be quite ready to celebrate.

Elsewhere, Mr Zoellick reports no progress towards lifting the European ban on imports of hormone-treated beef, to which America has replied with $117m a year in punitive tariffs. He also says that a possibly adverse ruling by the World Trade Organisation on America's new Foreign Sales Corporation code, a tax-based export subsidy, risks provoking a fresh trade war.

The specifics of the banana deal have raised hackles. It will transform Europe's mix of tariffs and quotas, a system set up in 1993 to help exports from former colonies, into a tariff-only regime by 2006. The WTO ruled the earlier system illegal, because it discriminated against bananas from Latin America, most of which are shipped by American companies. From July 1st a transitional period will begin. Companies will receive licences to fill quotas based on their import volumes in 1994-96.

This last point has left Dole, America's second-biggest banana trader, crying foul. While its near-bankrupt competitor, Chiquita, has struggled with a falling market share over the past seven years, Dole has diversified its sourcing of bananas, and branched out into other lines of fruit. However, for at least the next five years, Dole's hard work will count for little.

Dole wanted the EU to choose a first-come, first-served regime in which quotas would not depend on past performance. So did Ecuador, which supplies many of Dole's bananas and which joined America as a plaintiff in the WTO case. Ecuador's resistance could torpedo the agreement, or result in a new appeal to the WTO.

If the banana accord survives, it will also be a victory for Trent Lott, the Republican leader of the Senate. Last year Mr Lott, who has received tens of thousands of campaign dollars thanks to the efforts of Chiquita's chief executive, made it clear that he would oppose any deal that hurt the company. This week Mr Lott is touring Europe. In Brussels, he should drop a thank-you note into Mr Lamy's letter box.

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Bank mergers in America

Outclassed

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AT THE start of the 1990s Wachovia was one of the very few banks in America to hold a top-notch credit rating. It had the finest of corporate customers in one of the fastest growing regions (the south-east), and its management avoided big and bungled mergers of the kind that for years crippled two acquisitive North Carolina neighbours, NationsBank (now Bank of America) and First Union. Wachovia lacked mass but, like J.P. Morgan, the only other bank in America with a triple-A credit rating at the time, it oozed class.

Which is not always enough. On April 16th Wachovia announced what was billed as a merger of equals, but in fact is a $13 billion acquisition by First Union. In this, Wachovia follows J.P. Morgan, which was absorbed last year by Chase Manhattan. As with that merger, the name of the smarter institution will be on the shingle, but it is the more plebeian First Union that will run the show. The new Wachovia will be four times bigger, with $330 billion in assets.

The sense of loss must be sharp at Wachovia. First Union traditionally has a shabbier air than Wachovia. And under its chief executive, Edward ("Fast Eddie") Crutchfield, who retired last year, it made just the kind of acquisitions that the suits at Wachovia mocked. The job of Ken Thompson, who replaced Mr Crutchfield, has been to mop up after his successor. He is selling branches acquired in Tennessee and trying to make good the botched acquisition of CoreStates, a Pennsylvania Bank for which First Union paid five times its book value. People assumed that First Union's acquisition binge was over. Mr Thompson has disabused them, but he is at least keen to show that First Union won't binge at any price: it is offering just twice Wachovia's book value.

The problem for Wachovia, says Gregory Bauer at Moody's, is that its corporate clients were using the bond markets to raise capital, or else turning to the market for syndicated loans. Credit quality at Wachovia declined. Last autumn it announced large provisions for loan losses, and several executives left or were sacked. Michael Mayo, with Prudential Securities, believes that distress at Wachovia may be behind the decision to sell now. Wachovia's earnings may be sliding faster than outsiders know. First Union's bid is pitched at only a small premium to Wachovia's share price.

Apart from the risk of problem loans, the other issue is integration. First Union has brought back lessons from Pennsylvania. There, it slashed CoreState's staff, and service suffered so that customers defected. This time, consolidation will happen slowly—with no lay-offs for at least a year, the bank promises. Over time, 7,000 jobs, or 8% of the total, might go, though cuts might be deeper once press interest dies down. Because this acquisition is about looking for efficiencies in the home market, rather than conquering new ones abroad, there is a real prospect of big savings—nearly $900m a year, the banks claim.

One of the biggest winners, however, may be another bank, BB&T, across the road in Winston-Salem from Wachovia's altogether more immodest tower. Its origins lie in the slaughterhouse, financing pigs for farmers. It has in recent years moved up the food chain, but it still focuses on small and ordinary businesses for which the syndicated-loan market, to say nothing of the bond market, is out of the question. Sticking to its mundane business, BB&T has grown faster than Wachovia. It might attract small customers that the giant merger leaves unhappy.

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Economics focus: The Big Mac index

Big Mac Currencies

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From The Economist print edition

The Economist's Big Mac index of currencies offers food for thought

IT IS time for our annual bite at burgernomics. *The Economist*'s Big Mac index was first launched in 1986 as a gastronome's guide to whether currencies were at their correct exchange rate. It is not intended to be a precise predictor of currency movements, but simply a way to make exchange-rate theory a bit more digestible.

Burgernomics is based upon one of the oldest concepts in international economics: the theory of purchasing-power parity (PPP). This argues that the exchange rate between two currencies should in the long run move towards the rate that equalises the prices of identical bundles of traded goods and services in each country. In other words, a dollar should buy the same amount everywhere.

Our "bundle" is a McDonald's Big Mac, which is produced to more or less the same recipe in about 120 countries. The Big Mac PPP is the exchange rate that would leave hamburgers costing the same in each country. Comparing a currency's actual exchange rate with its PPP is one test of whether the currency is undervalued or overvalued.

The first column of the table shows local-currency prices of a Big Mac; the second converts them into dollars. The average price of a Big Mac in America is $2.54 (including sales tax). In Japan, Big Mac scoffers have to pay ¥294, or $2.38 at current exchange rates. The third column calculates PPPs. Dividing the yen price by the dollar price gives a Big Mac PPP of ¥116. Comparing that with this week's rate of ¥124 implies that the yen is 6% undervalued.

The hamburger standard

	Big Mac prices		Implied PPP* of the dollar	Actual $ exchange rate 17/04/01	Under(–)/ over(+) valuation against the dollar, %
	in local currency	in dollars			
United States†	$2.54	2.54	–	–	–
Argentina	Peso2.50	2.50	0.98	1.00	-2
Australia	A$3.00	1.52	1.18	1.98	-40
Brazil	Real3.60	1.64	1.42	2.19	-35
Britain	£1.99	2.85	1.28‡	1.43‡	12
Canada	C$3.33	2.14	1.31	1.56	-16
Chile	Peso1260	2.10	496	601	-17
China	Yuan9.90	1.20	3.90	8.28	-53
Czech Rep	Koruna56.00	1.43	22.0	39.0	-44
Denmark	DKr24.75	2.93	9.74	8.46	15
Euro area	2.57	2.27	0.99§	0.88§	-11
France	FFr18.5	2.49	7.28	7.44	-2
Germany	DM5.10	2.30	2.01	2.22	-9
Italy	Lire4300	1.96	1693	2195	-23
Spain	Pta395	2.09	156	189	-18
Hong Kong	HK$10.70	1.37	4.21	7.80	-46
Hungary	Forint399	1.32	157	303	-48
Indonesia	Rupiah14700	1.35	5787	10855	-47
Japan	¥294	2.38	116	124	-6
Malaysia	M$4.52	1.19	1.78	3.80	-53
Mexico	Peso21.9	2.36	8.62	9.29	-7
New Zealand	NZ$3.60	1.46	1.42	2.47	-43
Philippines	Peso59.00	1.17	23.2	50.3	-54
Poland	Zloty5.90	1.46	2.32	4.03	-42
Russia	Rouble35.00	1.21	13.8	28.9	-52
Singapore	S$3.30	1.82	1.30	1.81	-28
South Africa	Rand9.70	1.19	3.82	8.13	-53
South Korea	Won3000	2.27	1181	1325	-11
Sweden	SKr24.0	2.33	9.45	10.28	-8
Switzerland	SFr6.30	3.65	2.48	1.73	44
Taiwan	NT$70.0	2.13	27.6	32.9	-16
Thailand	Baht55.0	1.21	21.7	45.5	-52

*Purchasing-power parity: local price divided by price in United States
†Average of New York, Chicago, San Francisco and Atlanta ‡Dollars per pound §Dollars per euro
Source: McDonald's; *The Economist*

The cheapest Big Macs are found in China, Malaysia, the Philippines and South Africa, and all cost less than $1.20. In other words, these countries have the most undervalued currencies, by more than 50%. The most expensive Big Macs are found in Britain, Denmark and Switzerland, which by implication have the most overvalued currencies. Sterling, for example is 12% overvalued against the dollar—less than two years ago, it was overvalued by 26%.

The greatest triumph of the Big Mac index has been in tracking the euro. When Europe's new currency was launched in January 1999, virtually everybody predicted that it would rise against the dollar. Everybody, that is, except the Big Mac index, which suggested that the euro started off significantly overvalued. One of the best-known hedge funds, Soros Fund Management, admitted that it chewed over the sell signal given by the Big Mac index when the euro was launched, but then decided to ignore it. The euro tumbled; Soros was cheesed off.

The average price today in the 12 euro countries is *euro*2.57, or $2.27 at current exchange rates. The euro's Big Mac PPP against the dollar is *euro*1=$0.99, which shows that it has now undershot McParity by 11%. That, in turn, implies that sterling is 26% overvalued against the euro.

Overall, the dollar has never looked so overvalued during 15 years of burgernomics. In the mid 1990s the dollar was cheap against most currencies; now it looks dear against all but three. The most undervalued of the rich-world currencies are the Australian and New Zealand dollars, which are both 40-45% below McParity. They need to ketchup.

All the emerging-market currencies are undervalued against the dollar on a Big Mac PPP basis. That, in turn, means that a currency such as Argentina's peso, which is undervalued only a tad against the dollar,

is massively overvalued compared with other currencies, such as the Brazilian *real* and virtually all of the East Asian currencies.

Some of our readers find the Big Mac index hard to swallow. Not only does the theory of purchasing-power parity hold only for the very long run, but hamburgers are a flawed measure of PPP. Local prices may be distorted by trade barriers on beef, sales taxes, or big differences in the cost of property rents. Nevertheless, some academic studies of the Big Mac index have concluded that betting on the most undervalued of the main currencies each year is a profitable strategy.

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Duffer

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AS REVISIONS go, it was quite a big one. On April 18th new data from Japan's Financial Services Agency (FSA) showed that the country's banks and credit unions were sitting on ¥150 trillion ($1.25 trillion) of problem loans, not the mere ¥80 trillion the agency had previously reported. All of a sudden, almost a quarter of bank loans are unhealthy. Depositors have learned that the financial system is even wobblier than officials had declared.

It turns out that the FSA had been reporting a net rather than a gross figure, by quietly subtracting problem loans backed by "sound" collateral or guarantees. The practice raises questions about whether "sound" collateral is actually that.

The Democratic Party of Japan, which prodded the agency into releasing the new figure, is not so sure. Some collateral is backed by credit-guarantee firms, many of which are subsidiaries of the banks themselves. A large chunk is guaranteed by listed companies, whose sagging share prices suggest they are not exactly bursting with health. Finally, ¥9 trillion of problem loans are to borrowers using the government's own guarantee scheme. If they go bust, banks will be repaid with public funds. Good for the banks, but small comfort to taxpayers who have already spent ¥18 trillion bailing them out.

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Indonesia and the IMF

Twisting in the wind

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From The Economist print edition

THE International Monetary Fund may seem omnipotent to emerging-market governments, but it differs from the Almighty in two ways. Although it readily giveth, it never seems quite willing to take away. And it often helps those who refuse to help themselves. These eternal failings have haunted the Fund in Indonesia, a huge and volatile country and one of its most troublesome clients over the past few years. Since December the IMF has withheld payments from its $5 billion aid package, and a special team is in Jakarta this week to haggle over the government's lax behaviour. No matter what they say, do or threaten, the IMF's representatives are unlikely to go away happy.

This time, the fall-out will have worse consequences than usual. A bad report card from the Fund could harm Indonesia's arrangements with the Paris Club of official creditors, which last year rolled over $5.8 billion in debts that Indonesia was due to repay in 2000 and 2001. The "consultative group on Indonesia", which co-ordinates aid from foreign donors, will also be watching closely, since it is due to meet next week to decide how much to keep paying out. Two other multilateral bodies, the World Bank and the Asian Development Bank, are already giving Indonesia much less help this year, largely because of the country's corruption and bad governance.

The alternative approach—simply to cave in to the government—is as untenable for the Fund in Indonesia as elsewhere. In some ways, Indonesia presents a worse dilemma than embattled economies such as Argentina or Turkey. In those places, there are genuinely difficult policy choices, but at least the IMF is able to deal with one or two key local officials who are trying to sort out the mess.

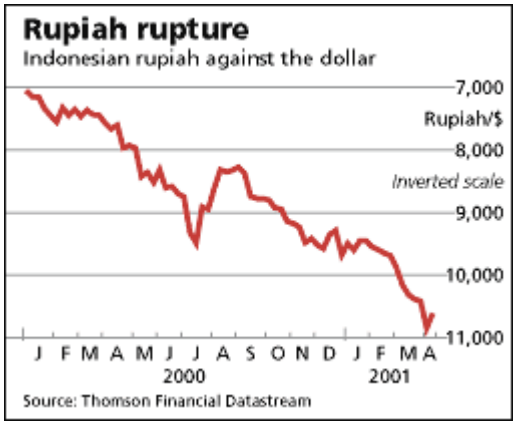
In Indonesia, by contrast, the IMF is up against a fractious and corrupt group of top politicians, none of whom shows a hint of wanting to take the obvious steps needed to fix matters. The Fund's own mistakes in 1997-98 complicate things further. Its arrival at the start of the crisis helped to precipitate a bank run and street riots. (Admittedly, these also helped finish off former President Suharto's dictatorship.) The legacy, says Jim Castle, a local consultant, is that the Fund and Indonesia are "like a couple that doesn't get along, but can't get divorced. All they can do is keep talking."

While they talk, Indonesia's health gets worse. After the country's GDP fell by 20% over 18 months (and stayed at that level for a further year), it managed to grow last year, though only by 4.8%. That is a far cry from the rebounds that its neighbours saw in 1999 and 2000, and it is a difficult goal to match in 2001. Political turmoil and a slowdown worldwide merely exacerbate Indonesia's structural problems.

Two key indicators are flashing red. The currency has slid rapidly as an impeachment drive against the president has gathered steam. As a result, interest rates have also shot up. With government debts of around 100% of GDP, both shocks will widen the budget deficit, which could also be hurt by weaker tax revenues from oil and gas exports. When the government first forecast a shortfall in 2001 of 52.5 trillion rupiah ($4.8 billion, equivalent to 3.7% of GDP), it was expecting its benchmark one-month interest rate to average 11.5%; the rate is now more than four percentage points above that. The exchange rate, which approached 11,000 rupiah to the dollar this week, is well below the original forecast of 7,800 rupiah (see chart).

The government and the Fund are discussing more than just the budget, though. The IMF is pressing Indonesia to become serious about structural reforms. It vents much of its displeasure on the bank-restructuring agency, which continues to dawdle. Broken promises to sell Bank Central Asia and Bank Niaga draw the most attention, but political jockeying is also holding up the sale of industrial assets in the agency's stables. And it is still unclear whether the Fund and its counterparts have resolved a dispute over the central bank. The government wants to replace the bank's leadership to root out corruption, but the Fund fears that this will undermine its independence.

At root is a basic truth: for all their bureaucracy and their arrogance, foreign donors seem to care more about the average Indonesian's plight than do the country's current crop of political leaders. The only remedy the Fund can think of is to keep threatening the unthinkable, in the hope that Indonesia's rulers will act. The threats grow less credible every time the government calls its bluff. As a result, the only certainty about this week's talks is that the IMF will want to end them on time, so that it can skip town before a crucial censure vote against the president in late April. So: no new agreement, and no plug pulled either. That is about the closest the IMF gets to tough love.



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Capital adequacy for European banks

Don't start from here

Apr 19th 2001 | BRUSSELS
From The Economist print edition

By writing half-formed rules on capital adequacy into law, Europe is putting the cart before the horse

THE drafters of financial laws in Brussels have a horrible three years ahead. One confides that on some mornings she would rather just hide her head under the duvet.

The challenge, apart from applying Alexandre Lamfalussy's recent recommendations on the regulation of securities markets in the European Union, is to turn 560 pages of guidance on international banking supervision into EU law. Not only that, the law must cover securities houses and investment firms as well as banks.

In January the Basle committee on banking supervision, which represents bank supervisors in big industrial countries, produced refined proposals that will revolutionise the supervision of the world's biggest banks. Instead of setting a fixed ratio of capital to so-called risk assets, the new framework, dubbed Basle 2, will allow the most sophisticated banks to use their own measures of risk to calibrate the amount of capital they must set aside.

Banks already use internal models to calculate market risk. They are developing new techniques to assess other risks they run, broadly known as operational risk. Supervisors will review this process continuously, adjusting capital requirements above the minimum the bank has calculated, with rewards for good behaviour. The goal is a safer, more market-driven—and hence more efficient—banking sector.

The previous Basle framework, set in 1988, laid down clear capital charges for credit exposures according to whether the borrower was a country, a bank, or a non-bank. It did much to encourage banks worldwide to build a sounder capital base, but it was crude. It tempted some banks, especially in Japan and South Korea, to make loans on the basis of the capital charge the loans attracted rather than of banking prudence, with disastrous results. Supervisors hope that Basle 2 will reduce such distortions.

The nightmare on the other side of the duvet is the task of translating a regime—which is still evolving and which is aimed at the top tier of international banks—into European law for all financial firms. Basle 2 must be turned into a third capital-adequacy directive (CAD 3), which may overlap with a bunch of other directives on solvency, large exposures and capital. These will need to be cancelled or amended. It must also have relevance to hundreds of small European banks and (mainly British) investment firms. Then the draft must go through the European Parliament and the European Council of Ministers before it becomes a directive; after which it must be written into the rulebook of each member state, often with new legislation. All of this must happen before January 2004, when Basle 2 is meant to be ready.

Basle 2 has problems of its own, to do with the calibration of risk, and with fierce and sometimes philosophical arguments about the definition of operational risk. There is also the danger that banks will have to scramble for new capital in the teeth of some future recession. Studies are in progress, and horse-trading between the big banks and regulators has only just begun. So this is not a good time to be enshrining raw and untested concepts into European law.

The European Commission's consultative document, adapted from Basle 2, invites comment by May 31st. It has the same ambitious plans for risk measurement, but it also highlights the special need for banks to finance small and medium-size enterprises (SMEs), most of which have no public credit rating (Basle 2 relies on public ratings as well as ratings used internally by banks). An increased capital charge for Europe's small banks, or heavier reporting requirements, could well raise the cost of borrowing for SMEs in Europe.

Risks and rewards

Continental fund managers tend to be owned by banks, with stacks of capital, whereas Britain has scores of independent fund-management firms with little capital behind them. A threatened charge for operational risk, based on the amount of funds under management, might be out of proportion to the risks many firms actually run. Or so argues the Association of Private Client Investment Managers & Stockbrokers in London. It depends on whether the firm gives advice to clients, for which it can be sued, or bears the risks of clearing and settling securities. If neither case applies, the case for putting up more capital is less strong. Yet such niceties are not written into either the consultative document or Basle 2.

The aim is to produce a draft directive by October this year. However, other groups are also likely to lobby the Commission and the European Parliament for special treatment. That could slow things down greatly.

In addition, there are fears that a directive will not be flexible or speedy enough to match what is proving to be a process of continuous evolution of the new Basle proposals. A remedy could be the one recommended by Mr Lamfalussy in his recent report on European securities regulation: to establish rule-making committees in charge of filling gaps in financial directives that are left deliberately open. “Comitology”, this is called, and though it is an eminently less crackpot concept than its name implies it has met with criticism from parliamentarians. They fear it will subvert the democratic process. They want the right to call back for parliamentary scrutiny any measures taken under comitology.

Eurocrats wonder whether, after a battle over applying comitology to securities regulation, there will be the appetite to fight for it in CAD 3. It may nonetheless be the only sensible way to recalibrate capital ratios and update concepts as the uncertain sciences of measuring credit and operational risk evolve. “What we need”, mused a British regulator this week, “is a rolling directive.”

British regulators are concerned that the European Commission may not meet the 2004 deadline, leaving London-based banks unable to apply Basle 2 in step with the Americans, Japanese and other non-EU banks. They are working on an answer. Happily, Britain’s Financial Services Authority has always insisted on capital ratios well above the existing EU minimum of 8%. So long as banks reach that 8% floor, they can start applying Basle 2 principles to any capital charge above the minimum, without infringing existing EU law. Whether continental banks, notably in France and Germany, will be able to do the same is open to question: they have long had a habit of sailing quite a bit closer to the regulatory minimum.

Many of those affected feel it is crazy to write Basle 2 into European law when it is still half-cooked. The target of the Basle committee is the internationally active banks. They are at the forefront of risk measurement, and regulators, rightly, want to harness their skills for the greater safety of the system. Applying half-knowledge to scores of financial firms across Europe at the same time will prove an expensive diversion.

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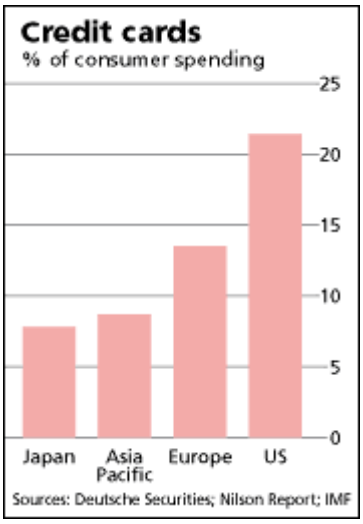
Credit cards in Japan

A borrower be

Apr 19th 2001 | TOKYO
From The Economist print edition

IN THE West, a credit card is a discreet way of borrowing. Not in Japan. Shoppers in department stores are almost always asked by shop assistants, often loud ones, whether madam will be paying off her card bill in one go, or in instalments. Because there is little revolving credit in Japan, card issuers want to know how to bill the customer. Yet borrowing money is considered shameful. So admitting in front of a queue of strangers that you cannot afford to clear your balance can be painfully embarrassing.

Japan's credit-card industry has been held back for years by old habits. Credit-card use is tiny by international standards. Purchases on credit cards account for just 8% of consumer spending in Japan, compared with 14% in Europe and 21% in America (see chart). The typical spender in Japan charges four times less each year than in America.



The industry, worth ¥3.5 trillion ($29 billion) a year is growing fast, admittedly. Yet it is still overshadowed by the industry for consumer loans, which is double its size. Consumer-finance firms are better at reassuring customers. They don't, for instance, send out monthly statements, so borrowers are protected from nosy spouses.

Card companies have also been hurt by their inflexible payment systems, says Paul Heaton of Deutsche Securities. Few offer revolving-payment schemes, which enable customers to spend money as long as they make minimum monthly repayments. Rather, those who cannot pay in one go end up locked into fixed instalment plans. That prevents them from paying off debt in one lump, even if they get a work bonus or unexpected windfall.

Unsurprisingly, most card users end up paying their bills in full. That deprives card companies of the fat profits that consumer-loan rivals make by charging customers interest rates of more than 20% on their loans. Although some card companies, especially ones affiliated with retailers, are building up a lending business by offering cash advances, most rely on vendor commissions of just 2.5% for their profits.

Card companies also suffer from poor marketing. In America, most offer points incentives or even cash to persuade customers to use their cards more often. In Japan, although customers can collect points, they often get unappealing rewards, such as leftover goods from affiliated stores.

Growing use of the Internet to buy things has not benefited credit-card companies as much as it has done elsewhere. Concerns about fraud and privacy, plus the widespread availability of other settlement options, have kept online purchases down, says Dean Perry of ING Barings. These days, for example, local 24-hour convenience stores offer their services as a pick-up and payment point for online purchases. Seven-Eleven Japan, the biggest chain, says that three-quarters of Internet shoppers pick up and pay for their goods at stores, rather than use a credit card and have them delivered.

There are signs, though, that the credit-card industry is waking up. Unlike most other financial businesses in Japan, there is plenty of room to grow. Though consumer spending has been weak, analysts predict that credit-card use could grow by more than 10% a year, especially if new domestic and foreign firms continue to come into the market. Not only would these bring their marketing and lending skills; they might even manage to introduce the concept of revolving payments.

Japan's consumer-finance giants already show plenty of interest, snapping up card companies that are poorly run, or bust. They have wanted to break out of their own market for some time, but have been hindered by the whiff of past scandals, when they applied aggressive methods of collection and usurious rates of interest. Big, international brands—Visa and Mastercard—have been reluctant to link up with them.

Buying existing credit-card companies solves the problem. Thus, Aiful, a leading consumer-finance firm, recently bought Life, a credit-card company that collapsed last May with some ¥900 billion in debts. Last month, Sanyo Shinpan, another consumer-loan company, agreed to buy Mycal Card, the credit-card arm of a struggling retailer. Other potential candidates include Daiei OMC, a credit-card company owned by another wobbly store chain.

The market for credit cards also offers opportunities for foreign players like Citigroup, GE Capital and Morgan Stanley. All are already busy in Japan and are trying to broaden their financial-service franchises. For those foreign institutions that take deposits, such as Citigroup, cards are a lucrative way to recycle idle yen. Meanwhile, domestic non-banks, such as Orix, Sony, Toyota, and Softbank (all keen to expand their financial-service operations), might also come in. Who knows, they might one day manage to persuade Japanese consumers that a bit of borrowing is not as big a sin as those shop assistants imply.

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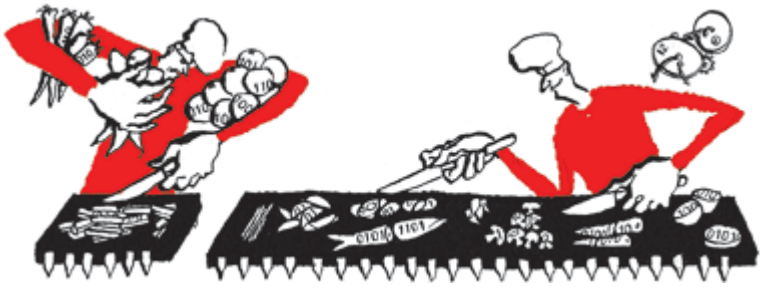
Old tricks for new chips

Apr 19th 2001
From The Economist print edition



Two venerable chip-design techniques, multi-threading and asynchronous logic, are finally on their way to widespread adoption

COMPUTING is similar to cookery. Programs, like recipes, are lists of instructions to be carried out. The raw materials are data which, like vegetables and other ingredients, must be sliced and diced in exactly the right way. Those ingredients must be turned into palatable output as quickly as possible. And in both cases, changes in organisational procedures can produce huge gains in efficiency.

Over the years, the designers of microprocessors have resorted to all sorts of tricks to make their products run faster. Modern chips, for example, queue up several instructions in a "pipeline" and analyse them to see if switching the order in which they are executed can produce the correct result, only more quickly. Similarly, if a recipe says "chop the garlic and heat the stock", a time-saving chef will start heating the stock first, and then chop the garlic while waiting.

Doing this kind of analysis is worthwhile only if the increase in the complexity of the chip's design that it requires provides a significant performance boost. Faced with diminishing returns, however, chip designers are dusting down two technologies—called multi-threading and asynchronous logic—that were both invented decades ago. At the time, neither was competitive with conventional designs, but important uses have since emerged for each of them. Multi-threading can increase the performance of database- and web-servers, while asynchronous logic is ideal for wireless devices and smartcards. As a result, both technologies are now heading towards the marketplace.

It slices, it dices

The idea of multi-threading goes back to the 1960s, and its use in supercomputers has been championed by Burton Smith, the chief scientist at Cray, a supercomputer maker. In 1995 Susan Eggers, Hank Levy and Dean Tullsen at the University of Washington showed how the idea could be applied to mass-market microprocessors, in a technique called "simultaneous multi-threading" (SMT). What makes SMT particularly clever is that a small increase in a chip's complexity results in a vast improvement in its performance, with one proviso: the gain comes when the chip is running lots of programs at once. In practice, though, all modern computers do this—users expect, for example, to be able to run a web browser and a word processor while listening to an MP3 music file. Strictly speaking, these programs are not actually operating at the same time. Instead, a single processor runs one program for a few milliseconds, then switches to another. But this switching happens so quickly that the user is fooled into thinking that all the programs are working simultaneously.

Inside the processor, this switching between programs looks a lot less slick. Switching involves storing the "processor state" for the outgoing program (that is, the configuration of the functional units that do the actual calculations), restoring the processor state for the incoming program, and then resuming operation. This is rather like a chef preparing (say) eight recipes at once by working on each for (say) three minutes at a time, and then switching recipes. Every time he switches, he has to forget the old recipe, re-read the new one, and move all of the ingredients on and off his chopping board.

SMT works by giving the chef a larger chopping board and allowing him to interleave steps from all eight recipes, while still ensuring that the peas end up in the pea soup. An SMT chip keeps track of several programs, or “threads”, at once. Doing so requires extra hardware to store the processor state for each thread, and when instructions are added to the queue, they must be labelled as coming from a particular thread. That way, when an instruction is sent to one of the various number-crunching units on the chip, it knows which thread’s state to update with the result.

Engineers at Compaq, an American computer maker, have estimated that only about 10% more circuitry is needed to enable a conventional chip design to support four threads at once in this way. But the improvements in performance can be spectacular, because when one of the threads is held up waiting for data to arrive, the others can keep running. Database- and web-servers generally create a separate thread for each user request—so the ability to run several threads simultaneously is a particular advantage for them. Simulations run by Dr Eggers’s team have found that an eight-thread SMT chip could run database software three times faster than a conventional chip, and web-server software four times faster. And those figures, says Dr Eggers, are for unmodified software. Tweaking the programs to support SMT explicitly could, she suggests, speed things up even more.

Stop the clocks

Where SMT offers chip designers a big performance gain for a relatively small design change, asynchronous logic involves a far more dramatic rethink. As its name suggests, it does away with the cardinal rule of chip design: that everything marches to the beat of an oscillating crystal “clock”. For a 1GHz chip, this clock ticks one billion times a second, and all of the chip’s processing units co-ordinate their actions with these ticks to ensure that they remain in step. Asynchronous, or “clockless”, designs, in contrast, allow different bits of a chip to work at different speeds, sending data to and from each other as and when appropriate.

The idea of asynchronous logic goes back to the dawn of digital computers. Some of the earliest machines (built in the 1950s) were based on clockless designs. But the synchronous approach predominated, largely because it is easier to design chips in which things happen only when the clock ticks. In recent years, however, clockless designs have started to look more appealing. One reason is that, as chips get bigger, faster and more complicated, distributing the clock signal around the chip becomes harder. Another drawback with clocked designs is that they waste a lot of energy, since even inactive parts of the chip have to respond to every clock tick. Clocked chips also produce electromagnetic emissions at their clock frequency, which can cause radio interference.

There are several styles of asynchronous design, according to Steve Furber, a computer scientist at Manchester University in Britain. Whereas conventional chips represent the zeroes and ones of binary digits (“bits”) using low and high voltages on a particular wire, one clockless approach, called “dual rail”, uses two wires for each bit. A sudden voltage change on one of the wires represents a zero, and on the other wire a one. Another approach is called “bundled data”. Low and high voltages on 32 wires are used to represent 32 bits, and a change in voltage on a 33rd wire indicates when the values on the other 32 wires are to be used.

Asynchronous designs take up more room on a chip than conventional designs, and there are far fewer design tools available to help create them, but a number of groups, including Dr Furber’s, have already built asynchronous microprocessors. Ivan Sutherland of Sun Microsystems, who is regarded as the guru of the field, believes that such chips will have twice the power of conventional designs, which will make them ideal for use in high-performance computers. But Dr Furber suggests that the most promising application for asynchronous chips may be in mobile wireless devices and smartcards.

Wireless devices based on asynchronous chips would run for longer between recharges, and their circuitry would cause less radio interference. Dr Furber is developing asynchronous chips for such devices in conjunction with ARM, a British company whose processors appear in many handheld computers and mobile phones. Philips, a Dutch electronics firm, has already built a pager that uses asynchronous logic, and Theseus Logic of Orlando, Florida, is also pursuing low-power wireless applications.

In the case of smartcards, Dr Furber suggests that asynchronous logic would offer better security than conventional chips. The encryption on existing smartcards can be cracked by analysing the power consumption for each clock tick. This allows details of the chip’s inner workings to be deduced. Such an attack would be far more difficult on a smartcard based on asynchronous logic.

There is, of course, a catch. Both SMT and asynchronous logic undermine the use of a chip's clock speed as a proxy for its performance. And that might make things tricky for the marketing men, who have long insisted that the more MHz, the merrier.

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Jet propulsion

Scram!

Apr 19th 2001 | LOS ANGELES
From The Economist print edition

IT TOOK the Wright brothers 12 seconds to make aeronautical history. On May 19th America's National Aeronautics and Space Administration (NASA) hopes to use an even shorter stretch of time to push the boundary of powered flight a little further. The Hyper-X-43A, which is pilotless, four metres long, and has a nose made of solid tungsten, will be the first working aircraft to be powered by a scramjet—a supersonic-combustion ramjet. The Wright *Flyer* wobbled over the sands at Kittyhawk for a distance of 36 metres; in its ten seconds of powered flight the X-43A will travel around 22km.

Unlike the more familiar turbojet, which uses a turbine-powered fan to compress the incoming air before it is mixed with fuel, a ramjet compresses air by forcing it down an ever-narrowing funnel. Ramjets (which predate turbojets) were used in weapons such as the V1 flying bombs launched at Britain by Germany during the second world war. But they have not been widely adopted because they have to be accelerated to Mach 1 (the speed of sound) before the air inside them becomes compressed enough for them to work. That compression also slows the air down. Scramjets (in which the fuel/air mixture is still travelling supersonically when it is ignited) are even more temperamental. They work only above Mach 5. But once there, a scramjet-powered aircraft should be able to zoom away to speeds unattainable by a turbojet.

The X-43A will be given its initial kick by a Pegasus rocket that will itself be dropped from a B-52 bomber. Once the rocket has lifted its speed to Mach 5, the X-43A will set off on its own, burning hydrogen as it streaks out across the Pacific. When the fuel runs out, it will glide on for about 15 minutes, before dropping into the sea.

Who will actually want to build a hypersonic aircraft remains unclear. In the golden age of aerospace, the 1960s and 1970s, there was talk of airliners that could fly from New York to Tokyo in two hours, and bombers that would outrun any air-defence. According to Charles McClinton, the technical director of NASA's Hyper-X programme, the emphasis has now swung towards space travel. A "space-plane" with a scramjet to power it through the atmosphere might burn 30 tonnes of fuel lifting a payload into orbit, compared with the 1,400 tonnes used by a space shuttle. That will take a little longer than 12 seconds.

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A better mosquito trap

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From The Economist print edition

BATTLING bugs is little different from other kinds of modern warfare. Knowing your enemy helps a lot, and building better weapons gives you an advantage, too. But in these kinder, gentler times, the lives of non-combatants must also be protected. Thomas Fernandez, who runs PestBusters, a pest-control firm based in Singapore, embraces all three of these rules when he dreams up new products. His latest foe is the pesky—and, in many parts of the world, deadly—mosquito.

The traditional method of dealing with mosquitoes, creating an insecticidal fog, is environmentally unfriendly. It is also unpleasant for people in the area and—most pertinently of all—it is becoming less effective every year as insecticide-resistant strains spread around the globe. Mr Fernandez's mosquito trap works on a different principle altogether. It tricks mosquitoes into thinking they are about to get a meal: for although the Mega-Catch, as the invention is dubbed, may not look much like a person, from a mosquito's viewpoint it behaves like one.

Mosquitoes detect their victims in two ways: from the warmth of the body, and from the carbon dioxide in the breath. Mega-Catch, despite being a 38cm-high black plastic box, radiates heat and carbon dioxide much as a human body would. The heat is provided electrically, and the carbon dioxide (which is moistened to make it appear even more authentic) is released from a small cylinder of the type used to carbonate drinks.

Once she arrives at the box (only female mosquitoes suck blood; the males make do with plant juices), the hapless mosquito is lured through a slot in the side by a glittering pattern of lights. Like many other insects, mosquitoes are attracted by light. But it has to be light of the correct frequency. This is provided by light-emitting diodes inside the trap. The glittering quality, which seems as alluring to insects as it is to many people, is achieved by making the diodes flash and reflecting their light from a piece of aluminium foil that dangles behind the slot. Once inside the box, the mosquito is sucked downwards by a fan and deposited neatly into a pool of water. There, she drowns—for although mosquito larvae are aquatic, the adults cannot swim.

Besides being efficient (test runs show it can trap as many as 1,200 mozzies a night), Mega-Catch is selective. It can be tweaked to operate only when a particular species is active (*Anopheles*, which spreads malaria, is nocturnal; *Aedes*, which is responsible for yellow fever and dengue, prefers daylight). In addition, few "non-target" species, which would be killed if an area was sprayed with insecticide, are lured into the box. That is a matter of particular satisfaction to Mr Fernandez, who has a passion for insects such as butterflies, and hates to see them pointlessly killed.

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Organic farming

Golden apples

Apr 19th 2001
From The Economist print edition

Organic farming may indeed, as its practitioners have long claimed, be better for the environment and produce tastier food than its rivals

THE language of organic farming has a quality that George Orwell might have admired. The plants and animals it produces are no more “organic” than those of “conventional” farming, and its methods (natural pest control, crop-diversification, manure and compost) are more “conventional”, at least from a historical viewpoint, than the synthetic pesticides, herbicides and fertilisers that have displaced them. Behind this linguistic confusion, though, there is a substantial debate. Is organic farming just a sport for dilettante hobbyists, or could it have a significant role in the future of agriculture?

Sales of organically produced food, though small, have been growing fast over the past decade (in America, by 20% a year; in some European countries by as much as 40% a year). Until now, however, data to back up the field’s claims both to be environmentally sound, and to produce better quality food, have been sparse. But a paper just published in *Nature* by John Reganold and his colleagues at Washington State University, Pullman, suggests that for some sorts of crops those arguments are, indeed, correct.

Dr Reganold looked at apples. Starting from scratch, he and his team planted 12 experimental plots of apple trees and tended them for six years. Four plots were managed conventionally, four organically and four by hybrid “integrated” methods that attempt to have the best of both worlds. The researchers measured changes in soil quality in the plots, looked at the performances of the growing trees, estimated the energy input per hectare of orchard, calculated the profitability of each method and—perhaps most important of all—conducted blind-tastings to see which fruit appealed most to the consumer.

That organic methods resulted in better soil was little surprise. Gardeners have known for millennia that digging plant and animal waste into the earth improves it. Quantified in scientific terms, “improvement” means an open structure that soaks up water and allows that moisture to move around inside the soil so that it can be taken up by roots. Measured by that other shibboleth of conservationists, energy use, organic farming was also better. It was 5-7% more efficient than the other two systems.

As far as the performance of the trees went, there was no difference between the three methods. All the trees were equally healthy, grew equally fast and yielded similar amounts of fruit. During several years of the experiment that fruit was russetted (which does not affect its flavour, but is deemed unsightly by enough American consumers to affect sales). The russetting, however, affected all three plots to the same degree. And russetted or not, people preferred the organically grown apples, describing them as sweeter and less tart—a verdict supported by chemical analysis.

They were also more profitable, though that profitability rested on the willingness of customers to pay a premium for organically produced crops. In the case of apples from Washington, that premium is high—around 50%. Using this figure, Dr Reganold estimated that a new commercial organic orchard, run in a similar way to his, would break even after nine years; for a conventional orchard, the figure would be 15 years. But the organic method would still be attractive if the premium were lower. Only if it dropped below 12% did conventional methods break even first.

Dr Reganold reckons that similar results would apply to other perennial crops, such as other fruit trees, berries and grapes. And, since perennials account for 16% of American agriculture, green methods may yield more greenbacks than many sceptics have previously believed.

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So far from God

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Corbis

Latin America confuses outsiders. Two new books, by journalists who live there, show readers how to use their eyes

FOR much of the second half of the 20th century, Latin America was one of the busier and more tragic theatres of the cold war. Its injustices and inequalities inspired a generation of revolutionaries, many of whom lost their way, as well as their lives, in the utopian certainties of Marxism in all its sectarian variety. These revolts prompted the United States to support a variety of murderous or otherwise unsavoury regimes. The upshot, as Alma Guillermoprieto writes in her third book, "Looking for History", was that "hardly any political decision was taken either in Latin America or towards it during that time in which the region's own needs or history were the primary consideration."

LOOKING FOR HISTORY: DISPATCHES FROM LATIN AMERICA
By Alma Guillermoprieto

Pantheon; 320 pages; $25.

Buy it at
Amazon.com
Amazon.co.uk

TRUE TALES FROM ANOTHER MEXICO: THE LYNCH MOB, THE POPSICLE KINGS, CHALINO, AND THE BRONX
By Sam Quinones

University of New Mexico Press; 336 pages; $29.95 and £24.50

Buy it at
Amazon.com
Amazon.co.uk

Ms Guillermoprieto's conviction that Latin America "has its own independent life" informs the two dozen essays in her latest book. That reminder is still pertinent. In the past decade, Latin America has continued to confuse outsiders. Many liberals and financiers imagined that, with the cold war over, free-market economics and political democracy would progress seamlessly. Many leftists, conversely, see the region as a prisoner of the United States and the IMF.

In different ways, both Ms Guillermoprieto's book and "True Tales from Another Mexico" by Sam Quinones offer an excellent corrective to such superficial approaches. They explore political events in the region in the context of the underlying dynamics of change, or its absence, especially as they are lived by ordinary people. Both authors are journalists, and outstanding reporters. Ms Guillermoprieto, a veteran of two decades of writing on Latin America, was born and now lives in Mexico. The essays in "Looking for History" have been adapted from work which first appeared in the *New Yorker* and the *New York Review of Books*. Mr Quinones is a new talent. He has covered Mexico for several American publications since 1994.

Of the two, Ms Guillermoprieto has a broader and deeper reach and is the more elegant writer. Her great skill lies in combining wide reading and sympathetic understanding of Latin American perceptions with a knack for the illuminatingly off-beat interview (an expert practitioner of electoral fraud in Mexico, or a woman who is a former guerrilla but who has joined the right-wing paramilitaries in Colombia, for example).

Her book is mainly taken up with the three countries in Latin America of greatest import to the United States. In Mexico, she chronicles the turbulent years which began with the Zapatista rising in 1994, and culminated last year with the defeat, after seven decades in power, of the Institutional Revolutionary Party (PRI), and the election as president of Vicente Fox. She also explores the complexity of Colombia's violent conflicts, and worries about the consequences of the United States' decision to get involved.

Perhaps the best essays in the book are those concerned with Cuba. In three dispatches pegged loosely to the pope's visit to the island in 1998, the author reflects on the sad ironies of the twilight of its

revolution, particularly its return to sex tourism. She hangs out with dissidents, but also with a middle-aged couple, both black, who are supporters of Fidel Castro. Of the man, she observes that, “thanks to the revolution, he is now fluent in two useless languages—Russian and Bulgarian—and holds a degree in a useless discipline—Marxist economics.”

The fate of Cuba continues to cast a shadow over Latin America. In a review-essay on the heroic cult which formed around the figure of Che Guevara, Ms Guillermoprieto observes perceptively that “the only way to be like Che was to die like him, and all those deaths were not enough to create the perfect world that Che wanted.” But as someone broadly sympathetic to the left, she seems to find it hard to draw conclusions from her own quiet critique of revolutionary utopianism (she is otherwise enthusiastic about Marcos, the Zapatist leader), saying merely that “it remains forever a matter of debate whether Che’s life and example speeded the advent of the present era, in which there are no perfect causes.”

That messy world, in which the average Latin American is mainly concerned with trying to get ahead, is what Mr Quinones writes of. He is a tireless reporter, fascinated by the stories that lie behind an ephemeral headline in the Mexican press. In investigating a lynching in a small provincial town, for example, he reveals the deep popular distrust of officialdom and the justice system.

A common theme in his essays is how ordinary Mexicans are changing, often because of their experiences as migrants, in the United States or within their own country. In two complementary essays, he looks at Indians from Oaxaca. In one, he tells how tens of thousands now live, obsessed by basketball, in Los Angeles; in another, he shows how Indian community organisation is slowly transforming for the better the lives of tomato pickers on commercial farms at San Quintin in Baja California.

Mr Quinones has a keen eye and ear for Mexico’s changing popular culture: one of his essays concerns the life and early death of Chalino Sanchez, a toneless singer of *narcocorridas*, or ballads, chronicling the exploits of drug traffickers who span the northern border. In a corner of Michoacan state, the author comes across a gang of crack and substance users who call themselves West Side Kansas Street. But Mr Quinones also shows how familiarity with a freer society across the border contributed to destroying the tolerance of ordinary Mexicans for the PRI. He has a fine understanding of how the PRI managed to survive for so long by buying loyalty through a myriad of small deals, but how it also trapped Mexico in an inert and mediocre bureaucratic culture.

It is Mr Quinones’s contention that there is “another Mexico”, which is “not always pretty” but is vital, dynamic and self-reliant, and “is often found on the country’s margins”. It is that Mexico which took many academics and armchair pundits by surprise, and finally booted out the PRI in last year’s presidential election. Its winner, Mr Fox, is a candid, individualistic politician of immigrant roots, and a former manager of Coca-Cola in Mexico. That makes him, as Ms Guillermoprieto notes, “the unlikeliest, least *tipico* president Mexicans could have chosen”. Both these books help to explain why Mr Fox won, and in doing so they shed light on deeper changes in Latin America.

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Washington vendettas

Oh, Henry

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From The Economist print edition

IN OFFICE, Henry Kissinger often remarked that even paranoiacs had real enemies. However, it is doubtful that he envisioned Christopher Hitchens. Mr Hitchens asserts in this short squib that he felt compelled to omit a great deal of discreditable material and confined himself "to the identifiable crimes that should be placed on a proper bill of indictment". Actually, he passes along any odour he thinks he has sniffed.

THE TRIAL OF HENRY KISSINGER
By Christopher Hitchens

Verso; 172 pages; $22 and £15

Buy it at
Amazon.com
Amazon.co.uk

Mr Hitchens's first sentence contains his only understatement, an acknowledgment that he is "a political opponent" of the former secretary of state. He concludes by describing Mr Kissinger as a "deceitful and humourless toad", a phrase that captures his polemical and relentless assault on all of Mr Kissinger's attributes, from his "rather gross" manners to his alleged war crimes. It is hard to take seriously a book which asserts that "the single greatest achievement" of a man who counts the Nobel peace prize among his distinctions was "to get almost everybody to call him 'Doctor'."

Mr Hitchens's curtain-raiser deals with Mr Kissinger's role during the run-up to election day in 1968. Mr Hitchens claims that the Americans who were negotiating in Paris with the North Vietnamese confided in Mr Kissinger that a halt to the bombing of North Vietnam was in the works. His story continues with Mr Kissinger passing this information on to Richard Nixon in a successful job-seeking effort. Candidate Nixon then uses the tip to urge the South Vietnamese government to stand firm against any agreement that might have helped the Democratic candidate, Hubert Humphrey. His tactic succeeds in delaying the end of the American bombing of North Vietnam and helps get Nixon elected. The result is four more years of an unwinnable and murderous war. By Mr Hitchens's logic, Mr Kissinger is responsible for the continuation of the war.

In "A Tangled Web" (1998), William Bundy, Lyndon Johnson's assistant secretary of state for Far Eastern affairs, presented a careful study of Mr Kissinger's foreign policy under President Nixon. Mr Bundy was decidedly unsympathetic to the conduct of Mr Kissinger. Nonetheless, after examining the evidence at length, Mr Bundy concluded that Mr Kissinger had never passed along that inside information. Even if he had, this would reflect only on Mr Kissinger's morality but would have no bearing on any charge of criminality. Mr Hitchens does not try to show that Mr Kissinger was involved in, supported, or was even aware of Republican efforts to impede the Paris negotiations. There is no attempt to connect the dots.

Ralph Waldo Emerson, after reading a less than convincing attack on Plato by an adolescent Oliver Wendell Holmes Jr, advised the youth that "when you strike at a king you must kill him." Mr Hitchens, on a good day, is one of the wickedest controversialists around. In "The Trial of Henry Kissinger" he has barely grazed a formidable target.

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Motor mergers

Breakdowns

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END OF THE ROAD: BMW AND ROVER—A BRAND TOO FAR
By Andrew Lorenz and Chris Brady

Financial Times/Prentice Hall; 174 pages; £19.99.

Buy it at
Amazon.co.uk

WHEELS ON FIRE: THE AMAZING INSIDE STORY OF THE DAIMLERCHRYSLER MERGER
By David Waller

Hodder & Stoughton; 334 pages; $29.95 and £18.99

Buy it at
Amazon.com
Amazon.co.uk

IN 1994, BMW bought Rover, the last major British-owned car company, in an effort to become a mass-market manufacturer and achieve economies of scale. Altogether it poured £4.5 billion ($7 billion) into the deal, an investment which was completely wasted. BMW sold the company a year ago for £10.

EPA

To have and to hold, for a bit anyway

In 1998, Daimler-Benz, also based in south Germany, in Stuttgart, bought Chrysler, the smallest of the "Big Three" American car companies in Detroit, for much the same reason. At the time, this, the biggest industrial merger anywhere, was widely hailed as a master stroke. Since last summer, however, Chrysler, once the most profitable car maker in America, has tumbled into loss and has gobbled up nearly all of the $7 billion it had set aside for a rainy day, just as the American economy may be heading into recession. Those Chrysler bosses who had not already fled after the German takeover, were fired late last year, as the red ink flowed and tempers were lost back in Germany at the awful mess staining the reputation of the mighty makers of Mercedes cars.

"End of the Road" tells the long story of how the first German car foray abroad ended in tears; "Wheels on Fire", which concentrates merely on Daimler's takeover, is the more outdated and thus the less interesting of the two books.

"Wheels on Fire" also has the disadvantage of being the second book on the subject. The first, a racy account published last summer, was written by two American journalists based in Detroit. David Waller's book, which gives a European account of the background to the deal and of how it was put together, is every bit as breathless as its American predecessor. No meeting, no business meal, no solitary musing by any of the protagonists seems to have taken place without the presence of a tape-recorder or reporter's notebook to record the words uttered for posterity.

Much of this is, of course, just a reconstruction of the deal's history, told this time by the victors. Clearly

Mr Waller has had easy access to both Jürgen Schrempp, the charismatic Daimler boss and author of the audacious deal, and his close associates. This co-operation has been well rewarded with an account which makes Mr Schrempp seem like a business demi-god, with a taste for living it up when business is done for the day. The book's first weakness is that it limits itself to narrative, with a flimsy chapter about the dos and don'ts of a merger tacked on at the end. Unfortunately for the author, events at DaimlerChrysler have also moved on dramatically in the past year, and the merger is in danger of being a huge flop. Unless he makes unexpectedly rapid progress in sorting out the mess at Chrysler, Mr Schrempp will be lucky to hold on to his job.

As he watches time running out, the BMW book should send a shiver down Mr Schrempp's spine. It tells how BMW, and its equally charismatic leader, Bernd Pischetsrieder, left Rover to its own devices and failed from the outset to realise how weak the company was in every respect, from its brand's reputation to its engineering. By the time he sent in his own men to take it over it was all too late to turn things around. This failure cost Mr Pischetsrieder his job, leaving his successor to clean up after him. This book charts the decline of Rover, gives the inside story on the fight between two British buyers to take it off BMW's hands, and tells how it was ultimately won by a consortium led by the very man who had presided over Rover's decline before and after the German takeover. It lacks the narrative pace of the DaimlerChrysler book, but its analysis of what went wrong is thorough and well-founded.

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Ruminations

Getting away

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IF YOU stop to think about it, as the latest book by Adam Phillips, a writer and psychotherapist, recommends that you do, everyday talk is punctuated by notions of escape that are at once desirable and deplorable, adventurous and cowardly. Mr Phillips thinks this recurrence is more than just an accident of vocabulary. The idea of escape, he argues in "Houdini's Box" organises our lives: "we cannot describe ourselves without also describing what we need to escape from, and what, we believe, we need to escape to."

HOUDINI'S BOX: ON THE ARTS OF ESCAPE
By Adam Phillips

Faber and Faber; 160 pages; £9.99.
Pantheon; $22 (August)

Buy it at
Amazon.com
Amazon.co.uk

"Houdini's Box" begins with the strange story of a young girl who is obsessed with a kind of hide-and-seek and it ends with a coda about Emily Dickinson, a reclusive American poet. Between these vignettes come two intertwined narratives. One recalls the narrator's (supposed) encounters with a client suffering "ravenous boredom". These transcripts illustrate the negotiations and intrusions that are the therapist's trade—though their precision raises queasy doubts about their provenance. Then there is the eponymous escape artist. Houdini, it emerges, is not just a convenient thematic emblem, providing one of the author's characteristically quirky titles—his previous books include "Darwin's Worms" (2000) and "Terrors and Experts" (1996). With their handcuffs, straitjackets, skyscrapers and jails, Mr Phillips argues, Houdini's tricks parodied American society's preoccupations with restraint and respectability, offering the safely transgressive spectacle of "an honest criminal".

Besides being a cultural critique, Houdini's career, Mr Phillips writes, was both a homage to and flight from his origins (his father was an unsuccessful rabbi). The spectre of failure drove his relentless self-advertisement: "Fame", Mr Phillips observes, "was the modern word for permission." And his acts were, at bottom, elaborate flirtations with suicide.

Mr Phillips is Britain's best-read psychotherapist, and he avoids distressing jargon, though his studied aphorisms and circular reasoning can demand patience. Like his previous meditations, "Houdini's Box" purports to explore a discrete subject, but is really a guide to life. The arrogance of this project is leavened by a recognition that the author's insights can be found elsewhere: the book contains literary criticism and mythological exegesis, as well as therapy. And like all good essays, it provokes without foreclosing. Escape, we learn, is both a symptom and an end in itself. It is impossible—since death and the past are ineluctable—and exhilarating. The client finds their relationship "unexpectedly interesting", a double-edged compliment that captures the book's balance of hubris and humility. Its trick is to persuade the reader that he is overhearing the author think, and to join in.

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Recent American fiction

Hard girls

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IN HER first novel, Hester Kaplan explores the theme that emotion and medical ethics often trail technology: just because a miracle is physically possible doesn't mean that human relationships are up to the job. A 47-year-old woman bears her own daughter's child. Divorced and independent, Maggie doesn't seem the self-sacrificing type, but she feels vaguely culpable for the fact that her daughter Dale was born without a uterus. She loves Dale—who passionately wants a baby, or at least until she gets one. But, "hate—hating yourself for saying no—Maggie decided, was probably a sharper, more defining sentiment."

KINSHIP THEORY
By Hester Kaplan

Women's Press; £9.99 (July)
Little, Brown; 282 pages; $24.95.

Buy it at
Amazon.com
Amazon.co.uk
Amazon.com
Amazon.co.uk

The implanted embryo settles into her grandmother's womb happily enough, but the emotional complications set in right away. When Maggie goes for an ultrasound test, Dale watches, clinical and unmoved. When friends stage a baby shower, it's awkwardly uncertain whether Dale or Maggie is the guest of honour. And post-partum, Maggie is bereft. The newborn is whisked away. Maggie has no say in her name, Lily, and is immediately given drugs to dry up her milk. Meanwhile, Dale is alienated, relating to Lily "like a surprise houseguest who'd shown up with an alarmingly big suitcase and no plans for the next 18 years." Eventually unable to cope, Dale abdicates; Maggie takes the child back, and a tug of war ensues.

While Ms Kaplan's benign ending does seem implausible, her insights into the strains of this unnatural circumstance ring true. For Dale, Lily is a sister as well as a daughter; for Maggie, Lily is a daughter as well as a granddaughter. This confusion exacerbates both mother-daughter rivalries.

Some of the fine observation that distinguished Ms Kaplan's debut short-story collection, "The Edge of Marriage", returns, but the gems are a bit more sparsely scattered. And the enormity of her premise tends to overshadow her characters. Maggie's profession, ophthalmology, never transcends hazy metaphor. The fact that Maggie has always been overly critical of Dale, along with nearly everything else about their relationship, seems arbitrary. The premise dominates the book, and the characters come across too much as values stuffed into an equation. Then again, Ms Kaplan is to be admired for taking on challenging material. "Kinship Theory" is an intelligent and enjoyable novel, and a choice example of how the line between literature and science fiction has fascinatingly blurred.

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English letters

Only if it hurts

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THE STRENGTH OF POETRY
By James Fenton

Farrar, Straus and Giroux; 276 pages; $25.
Oxford University Press; £15.99

Buy it at
Amazon.com
Amazon.co.uk

SURPRISE attack by a quirk of thought or erudition is a pleasing feature of these entertaining, worldly lectures by a former professor of poetry at Oxford University. In “Goodbye To All That?”, James Fenton starts from a fascinating account of the day in 1665, during the second Anglo-Dutch war, when citizens of London and of The Hague believed that they could hear the guns of the great English sea-victory off Lowestoft. He then uses a series of Dutch commemorative medals to slip from that strangely remote event to William of Orange and the subjugation of Ireland, and so to the civil war that has festered in Britain in our own time. “This sudden baroque ambush of the modern reminds us that there is always a nasty surprise in store for the imperial mind.” The lecture on imperial poetry is a particularly good illustration of the *bon mot* of W.H. Auden (perhaps the most celebrated holder of the Oxford chair), whom Mr Fenton quotes elsewhere: “Very few statements which poets make about poetry, even when they appear to be quite lucid, are understandable except in their polemic context.”

Ten of the 12 lectures centre on individual poets, ranging from Wilfred Owen to Seamus Heaney. The author traces the way they were, or may have been, bruised or damaged in some crucial way, and how their sex lives may have become like a shrapnel wound that nagged whenever their thoughts turned dark. There is also a special obsession with the sense, justified or not, that there are people out there who hate you. From the effect of William and Dorothy Wordsworth sniggering at Coleridge’s “Kubla Khan” to Auden’s belief that Shakespeare’s sonnets must have been published against his will because they so excruciatingly echoed his own experience, Mr Fenton pieces together the hidden anxieties behind the poetry.

“This is one of those cases where biography does indeed help to unlock the poetry,” Mr Fenton writes of D.H. Lawrence. But is the unlocking for the reader or for the poet? Much of the time the claim is that the biography somehow supplies the aetiology of the poetry. The trouble with this is that we all harbour hurts and guilts and sexual shames, and yet most of us are, to put it mildly, not great poets. The question of why certain individuals are touched by the muses remains essentially unopened.

When he retired as Oxford’s professor of poetry, Mr Heaney brought out a collection of lectures entitled “The Redress of Poetry” in 1995. Mr Fenton is his successor in more ways than one. Both books make you smile or even laugh, but while Mr Heaney’s humour is tongue-in-cheek and twinkling, Mr Fenton’s is mordant and even acidulous. There is, though, a more fundamental difference: “The Redress of Poetry” is about the strength of poetry, while “The Strength of Poetry” is really about human weaknesses and the compensating strengths of poets.

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Images of Afghanistan

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Chris Steele-Perkins, a former president of Magnum, the photo agency, rarely shows the war directly in his new book, “Afghanistan” (Westzone, £30). Instead, he focuses on its effects on young soldiers, orphaned children, the veteran lapis lazuli miners and the horseback riders playing *buskashi.*

Chris Steele-Perkins/Magnum

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Dutch painting

Very still life

Apr 19th 2001
From The Economist print edition

VERMEER: A VIEW OF DELFT
By Anthony Bailey

Chatto & Windus; £16.99
Henry Holt; 256 pages; $27.50.

Buy it at
Amazon.com
Amazon.co.uk
Amazon.com
Amazon.co.uk

THERE is a hole at the centre of all biographies of Johannes Vermeer, where the man himself should be. Although his pictures continued to be greatly valued through the 18th and early 19th centuries, Vermeer was then almost lost as a historical personage, until his oeuvre was painstakingly put back together in the 1860s by a French critic, Théophile Thoré. Even so, the painter's personality and life-story remained elusive, which may be why Thoré christened him "the Sphinx of Delft".

Scholarship has moved on since Thoré's time, and over the past 30 years a series of documents has emerged from the Dutch archives, many of them discovered by an economic historian, John Michael Montias. However, these are mostly either official records of births, deaths and marriages, or else legal reports, financial accounts and wills. There is still no certain knowledge of who Vermeer studied under, or who might have been his pupils. No colleague or acquaintance describes either the man's character or his working methods.

Between Vermeer's birth and his marriage a full 20 years pass free of documents. Indeed, Mr Montias has turned up a greater number of colourful anecdotes about Vermeer's scandalous grandmother, Neeltge Goris—who was responsible for a series of lottery swindles—and about his violent and mentally unstable brother-in-law Willem Bolnes, than about the painter himself. In such circumstances, as Ruth Brandon said in her life of the equally undocumented Isaac (sewing machine) Singer, "The biographer is in a position similar to the physicist who must draw evidence for the existence of certain particles, from the traces of their impact upon other particles." This is Anthony Bailey's strategy.

He starts with the terrible day in October 1654 when the Delft gunpowder magazine exploded and the townspeople thought the world had ended. Among the many dead was Carel Fabritius, the city's most prominent painter, a pupil of Rembrandt and perhaps even Vermeer's teacher. The one contemporary to celebrate Vermeer's genius in print was Dirck van Bleyswijck, who describes the painter as having risen Phoenix-like from the fire that killed Fabritius, to become "as great a master". The thousands of visitors who have been to the Vermeer show, at the Metropolitan Museum in New York until May 27th and from late June at the National Gallery in London, to see "The Little Street" and the "Girl in the Red Hat" would probably agree. Mr Bailey continues to circle around Vermeer, with accounts of the military and political history of the Dutch golden age; intriguing descriptions of the Delft brewing and pottery industries; the testimony of those few individuals such as Constantijn Huygens and the French art-lover and optical scientist Balthasar de Monconys who are recorded as having actually visited Vermeer; and a possible connection between the painter and his fellow-citizen of Delft and close contemporary, the microscopist Anthony van Leeuwenhoek.

There is a scattering of maybes, perhapses and we-can-imagines across Mr Bailey's text, where the sources run completely dry. But this is perhaps excusable, even appropriate, for a man whose character—so far as one can judge from the pictures themselves—seems so reticent, even deliberately

evasive. In later chapters we learn about the scandal of Han van Meegeren's spectacularly successful forgeries of the 1930s; and about the criminal worlds of theft and ransom into which several paintings by Vermeer have fallen, since they rose in value.

Interspersed among these historical sketches of Vermeer's milieu, are critical appreciations of selected paintings and summaries of other scholars' theories about Vermeer's painting technique. These hypotheses all have to be based, in the absence of any other evidence, on close examination of the canvases themselves: via x-ray photography, through chemical examination of the paint layers and by analysis of the extraordinarily precise perspective geometry of Vermeer's interiors. Mr Bailey's declared intention is to make 100 years of research on Vermeer—both historical and technical—accessible to the general reader. In fact, he does more than this. He carries us back into the daily life and atmosphere of 17th-century Holland. And he poses once again the unanswerable question that Marcel Proust raised: by what alchemy does Vermeer transmute the realistic depiction of that everyday life into something transcendent and timeless?

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Factual abuse

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AROUND 150,000 American women, it is estimated, are anorexic. Because anorexia can cause death, that figure was used not long ago to support the wild claim that 150,000 American women die of anorexia every year (the correct figure is fewer than 80).

Repetition and "number-laundering" of this kind can give the most baseless figures an air of believability, Joel Best writes in "Damned Lies and Statistics: Untangling Numbers from the Media, Politicians and Activists" (University of California Press; $19.95 and £12.95). In the early 1980s, during one of America's regular crime scares, the claim gained currency that 50,000 children were being abducted by strangers every year. Reporters at the *Denver Post* won a Pulitzer prize for pointing out that FBI records counted only 70 such kidnappings.

Mr Best advocates a sceptical, though not cynical, approach to statistics, and suggests some danger signs to watch for. Opinion-poll results depend, notoriously, on how questions are phrased. Both gun-control advocates and the National Rifle Association claim the upper hand. When you ask Americans if they favour a crackdown on illegal gun sales, around 75% say yes. If your question is about letting the police decide who should own a gun, the same proportion say no.

Some "researchers" use sham "methodology" to reach loopy conclusions. One in 50 Americans, we are assured, has been abducted by aliens at some time in his life. This number is derived from a questionnaire drafted to test the presence of five "symptoms" which researchers interpreted as evidence of abduction. Anyone with four or more was counted as a probable abductee.

More seriously, definitions and reporting habits change. Recorded cases of child abuse in America soared from 15,000 in 1963 to nearly 3m in 1995. But the definition of abuse has broadened substantially since the 1960s. And—over-sensitised by the numbers?—case workers and teachers are much likelier than they once were to spot and report signs of possible abuse.

And always read the small print. We've all heard that the United States has roughly 30 times as many lawyers, for its size, as Japan. But the Japanese figure counts only *bengoshi* (people licensed to sell legal services). If you include anyone with a law degree lawyering for business or government, Japan, Mr Best tells us, is as dense with lawyers as America.

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Jérôme Lindon

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Jérôme Lindon, France's pioneer of new writing, died on April 9th, aged 75

EPA

IT IS anyone's guess what would have become of Samuel Beckett had his novel "Malloy" not been accepted for publication in 1950 by Jérôme Lindon. Perhaps he would have given up. The Nobel prize for literature that he was to win in 1969 would have gone to someone else. "Waiting for Godot", perhaps the most influential play of the past 50 years, would never have been staged. Beckett recalled that he and his wife Suzanne had had a coffee and a cigarette at a nearby café before calling on Mr Lindon at his office in Paris's Left Bank. "Malloy" had been turned down by seven publishers. Beckett said this would be the last attempt to sell words that no one seemed to want to buy. Anyway, he preferred to remain a recluse.

Suzanne volunteered to deliver the now rather shabby typescript. She did not see Jérôme Lindon, but was assured by a colleague of his that it would be shown to him. Mr Lindon had vaguely heard of Beckett, an Irishman who for some reason wrote in French, as being "interesting". He read "Malloy" in the Metro on his way home and finished it that evening. It was clear that Beckett was not going to be an immediate bestseller. Some would find him "difficult" or indeed unreadable. But for Mr Lindon he was a refreshing new voice. He had some difficulty getting in touch with Beckett, who did not have a phone. But eventually Suzanne came to Mr Lindon's office and a deal was made: he would publish "Malloy" and two other novels for an advance against future sales of 25,000 old francs, the equivalent of about $70.

That sum, though seemingly tiny, was about par at the time for new authors in France. Its equivalent today would be $520, enough to buy a few agreeable meals. More importantly, it gave a boost to Beckett, not an easy man to cheer up. And it has to be said that taking on Beckett's novels with their printing and distribution costs was a brave undertaking for a firm that was close to going bust. For Beckett the highest of praise was for a publisher to be willing to face bankruptcy to bring out his book.

Paris under the Germans

Jérôme Lindon's firm was called Editions de Minuit. It had been founded during the second world war. Despite the German occupation, literary life had managed to flourish along with the other arts: Picasso continued to paint in Paris, and "Les Enfants du Paradis", produced at the time, is regarded as one of the dozen or so best films ever made. The "Minuit" in the firm's name suggested that its books were printed in secret after midnight, although it is unclear whether they were.

Any German tolerance did not extend to Jews, and Mr Lindon and his family spent the war years as quietly as possible in the French provinces. He joined Editions de Minuit as an unpaid helper in 1946, when he was 21. Two years later he took over the ailing firm, keeping it going with family savings, although not a lot: his father had been a salaried lawyer for the government.

France's established authors were being published mainly by Gallimard and Grasset. For Mr Lindon, his new authors were not only cheap but they reflected a new mood in post-war Europe. Traditionalist novelists sought to depict a world in which there was a reassuring sense of order. In the books of Mr Lindon's authors life is never so secure: it is difficult to tell what is really happening and what is illusion.

"We're not beginning to, to mean something?" asks a character in Beckett's play "Endgame".

"Mean something? You and I, mean something? Ah, that's a good one!"

As most people like their reading matter to be easily comprehensible, Mr Lindon's stable of such writers

as Alain Robbe-Grillet, Nathalie Sarraute, Marguerite Duras and Claude Simon tended to be admired more by literary critics than by the public. Miss Duras's worldwide bestseller "The Lover" was probably helped along by publicity about its sexual content. Mr Simon (whose unusual punctuation is a barrier to the uninitiated) became briefly famous in 1985 when, like Beckett, he won the Nobel. But gradually their influence permeated into mass entertainment. Just as Ernest Hemingway in the 1930s sharpened up language with short sentences, so Beckett and Co introduced ambiguity into novels, even traditional ones, and especially into films, television, pop music and advertising. Many television plays these days, even soaps, tend to leave the viewer a bit puzzled, indeed uneasy, about what the meaning was, if indeed there was a meaning.

Jérôme Lindon became himself uneasy about the future of literature. Editions de Minuit remains small, producing about 20 new books a year. But it has the sort of solid backlist that makes a publisher feel comfortable. The printed edition of "Waiting for Godot", which sold only 125 copies in its first year, now sells 35,000. But publishing in France, as elsewhere in Europe, is dominated by big companies interested mainly in what they see as sure winners. "The only real publishers are the independents," Mr Lindon said. Without them "the spring of young authors" would dry up. Those remaining would be left nursing a coffee in a café, wondering where next to offer a battered typescript.

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OUTPUT, DEMAND AND JOBS

Apr 19th 2001
From The Economist print edition

American industrial production increased in March for the first time since last September. In France, the 12-month growth in industrial output was stronger than expected but still weakened in February to 2.4%. Retail-sales growth fell sharply in Germany but remained strong in Canada.

% change at annual rate	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)	Unemployment % rate	
	3 mths†	1 year	2001	2002	3 mths†	1 year	1 year	latest	year ago
Australia	− 2.2	+ 2.1 Q4	+ 2.3	+ 3.9	+ 0.8	+ 3.1 Q4*	− 0.1 Q4	6.8 Mar	6.8
Austria	+ 1.7	+ 2.6 Q4	+ 2.3	+ 2.5	na	+ 9.3 Jan*	− 1.3 Dec	3.7 Feb	3.6
Belgium	+ 4.9	+ 3.1 Q4	+ 2.6	+ 2.7	na	+ 3.8 Feb*	+ 7.1 Jan	10.3 Mar*	10.6
Britain	+ 1.4	+ 2.6 Q4	+ 2.4	+ 2.7	− 2.6	+ 1.0 Feb	+ 5.8 Feb	5.2 Feb‡	5.8
Canada	+ 2.6	+ 4.0 Q4	+ 2.2	+ 3.3	− 1.2	+ 1.2 Jan	+ 3.9 Jan	7.0 Mar	6.8
Denmark	+ 4.9	+ 1.1 Q4	+ 1.9	+ 2.2	na	+ 4.3 Jan	− 0.6 Feb	5.4 Feb	5.3
France	+ 3.9	+ 2.8 Q4	+ 2.6	+ 2.7	+ 2.1	+ 2.4 Feb	+ 0.1 Feb	8.8 Feb	10.2
Germany	+ 0.8	+ 1.9 Q4	+ 2.1	+ 2.6	+ 7.4	+ 4.7 Feb	− 6.7 Feb	9.3 Mar	10.1
Italy	+ 3.2	+ 2.7 Q4	+ 2.2	+ 2.5	+ 5.3	− 1.5 Feb	− 1.0 Jan	9.9 Jan	11.2
Japan	+ 3.2	+ 2.8 Q4	+ 0.5	+ 1.3	− 2.9	− 2.1 Feb	+ 1.8 Jan	4.7 Feb	4.9
Netherlands	+ 3.8	+ 2.8 Q4	+ 2.9	+ 3.1	+ 2.5	+ 1.9 Feb	+ 2.5 Jan	2.4 Feb§	2.8
Spain	+ 2.9	+ 3.7 Q4	+ 3.0	+ 3.3	− 1.2	− 3.5 Feb	na	13.7 Feb	15.0
Sweden	+ 2.4	+ 2.6 Q4	+ 2.7	+ 3.0	na	+ 9.4 Jan	+ 4.9 Jan	4.2 Feb*	5.4
Switzerland	+ 1.8	+ 2.5 Q4	+ 2.0	+ 2.2	na	+ 5.0 Q4*	+ 4.9 Jan	1.8 Mar*	2.3
United States	+ 1.0	+ 3.4 Q4	+ 1.4	+ 3.0	− 4.7	+ 0.8 Mar	+ 1.5 Feb	4.3 Mar	4.0
Euro area	+ 2.8	+ 3.0 Q4	+ 2.4	+ 2.7	+ 6.6	+ 5.1 Jan	+ 2.3 Jan	8.7 Feb	9.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Finland	+ 3.0	+ 5.5 Q4	na	na	− 8.1	+ 6.8 Feb	+ 4.3 Dec	9.8 Feb*	11.3
Greece	na	+ 2.5 2000	na	na	na	+ 3.1 Nov	+ 6.0 Nov	na	na
Iceland	na	+ 4.4 1999	na	na	na	+ 4.2 1999	na	1.3 Jan	1.5
Ireland	na	+11.0 Q3	na	na	na	+32.2 Jan	+ 4.6 Jan	3.6 Mar	4.3
Luxembourg	na	+ 8.5 2000	na	na	na	+ 0.6 Dec*	+ 9.4 Nov	2.8 Jan	2.6
New Zealand	+ 2.2	+ 1.6 Q4	na	na	na	+ 0.9 Q4*	+ 7.3 Q4	5.6 Q4	6.3
Norway	+ 0.2	+ 0.9 Q4	na	na	+ 3.5	− 0.3 Jan	− 2.4 Feb	3.1 Q4	3.2
Portugal	+ 5.1	+ 3.4 Q3	na	na	na	+ 3.6 Feb*	+ 4.6 Jan	3.8 Q4	4.1

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate. ‡Dec-Feb; claimant count rate 3.3% in March. §Dec-Feb.

Text refers only to the first 16 countries listed

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COMMODITY PRICE INDEX

Apr 19th 2001
From The Economist print edition

The price of robusta coffee, used in blends and instant coffee, slumped to new 30-year lows in London this week. The main reason is a glut in supply caused by the threefold rise in Vietnam's production in the past five years. In addition, the price-support plan of the Association of Coffee Producing Countries is already foundering even though it was launched only last October. All members are supposed to hold back a fifth of their exports in order to boost prices. Brazil, Colombia and Vietnam (not a member) have complied but other producers are not doing so because they lack the money. India has announced it will not join the scheme and Indonesia's cash-strapped government wants to leave funding to the private sector.

1995=100	Apr 10th	Apr 17th*	% change on one month	% change on one year
Dollar index				
All items	69.4	69.4	– 1.0	– 5.7
Food	67.0	67.2	– 3.1	– 7.4
Industrials				
All	72.6	72.4	+ 1.8	– 3.5
Nfa†	69.8	70.1	+ 5.8	– 4.5
Metals	74.9	74.3	– 1.2	– 2.7
Sterling index				
All items	76.0	76.5	– 1.3	+ 3.9
Food	73.4	74.1	– 3.4	+ 2.1
Industrials	79.5	79.7	+ 1.5	+ 6.4
Euro index				
All items	102.5	103.5	+ 1.3	+ 1.5
Food	99.0	100.3	– 0.9	– 0.3
Industrials	107.2	107.9	+ 4.2	+ 3.9
Yen index				
All items	91.9	91.4	– 0.1	+ 11.8
Food	88.8	88.5	– 2.2	+ 9.8
Industrials	96.1	95.3	+ 2.7	+ 14.5
Gold				
$ per oz	257.05	260.85	+ 0.3	– 7.1
Crude oil North Sea Brent				
$ per barrel	26.49	27.64	+ 9.9	+ 21.1
West Texas Intermediate				
$ per barrel	28.24	27.79	+ 8.0	+ 6.7

* Provisional. † Non-food agriculturals.

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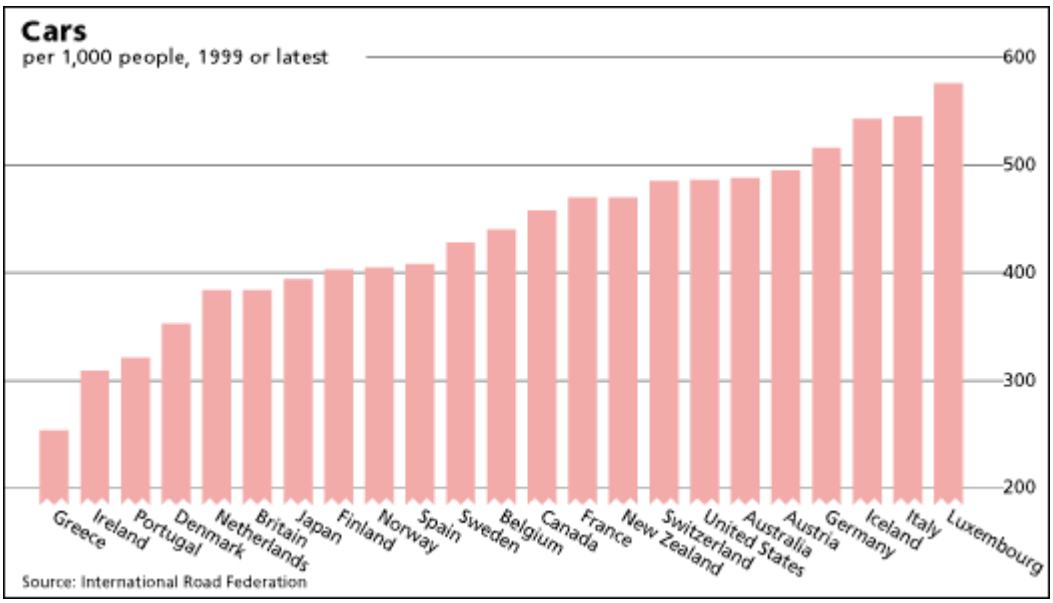
CAR OWNERSHIP

Apr 19th 2001
From The Economist print edition

Luxembourg wins the race for the number of cars owned per head of population. According to the International Road Federation, the chequered flag falls on this tiny European state for its ownership rate of 576 cars per 1,000 people. Another small country, Iceland, takes third place. European countries dominate the rankings. No South American or African country holds a top spot. Japan lags behind other big car-producing countries at 17th place, with only 394 automobiles per 1,000 people. Despite its automative obsession, America comes seventh, with 486 cars per 1,000 people. That ranking is likely to fall in the next two years. Car sales in the United States are forecast to drop by as much as 20% over that period, about double the decline expected in the rest of the world.



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PRICES AND WAGES

Apr 19th 2001
From The Economist print edition

American consumer- and producer-price inflation fell in the 12 months to March. Consumer-price inflation in Spain edged up slightly to 3.9% in the year to March, but declined slightly in France. After falling since last October, producer prices rose in Belgium in February.

% change at annual rate	Consumer prices*		The Economist poll consumer prices forecast		Producer prices*		Wages/earnings	
	3 mths†	1 year	2001	2002	3 mths†	1 year	3 mths†	1 year
Australia	+ 1.2	+ 5.8 Q4	+ 3.5	+ 2.3	+10.2	+ 8.4 Q4	– 2.8	+ 5.1 Q4
Austria	na	+ 2.7 Mar	+ 1.8	+ 1.4	– 0.2	+ 2.7 Mar	+ 5.4	+ 2.6 Feb
Belgium	+ 0.8	+ 2.1 Mar	+ 1.9	+ 1.8	– 9.9	+ 4.3 Feb	+ 3.7	+ 1.6 Q4
Britain	– 0.5	+ 2.3 Mar	+ 2.0	+ 2.3	– 2.7	+ 0.8 Mar	+10.5	+ 5.0 Feb
Canada	+ 0.7	+ 2.9 Feb	+ 2.3	+ 2.0	– 0.9	+ 2.6 Feb	+ 0.5	+ 0.2 Jan‡
Denmark	+ 1.7	+ 2.3 Mar	+ 2.3	+ 2.2	– 4.6	+ 3.4 Feb	+ 3.7	+ 3.8 Q4
France	– 0.1	+ 1.3 Mar	+ 1.4	+ 1.4	– 3.1	+ 3.4 Feb	+ 2.6	+ 5.0 Q4
Germany	+ 4.3	+ 2.5 Mar	+ 1.8	+ 1.3	– 0.1	+ 3.3 Mar	na	+ 2.4 Jan*
Italy	+ 3.4	+ 2.8 Mar	+ 2.3	+ 1.9	+ 1.6	+ 4.9 Feb	+ 1.2	+ 2.0 Feb*
Japan	– 0.8	– 0.1 Feb	– 0.5	– 0.3	+ 2.5	+ 1.1 Mar	na	+ 0.9 Feb
Netherlands	+ 6.9	+ 4.6 Mar	+ 3.6	+ 2.3	– 0.9	+ 5.3 Feb	+ 2.3	+ 3.0 Feb
Spain	+ 2.9	+ 3.9 Mar	+ 3.0	+ 2.4	– 0.6	+ 3.6 Feb	+ 1.9	+ 2.2 Q4
Sweden	na	+ 1.9 Mar	+ 1.6	+ 1.7	+ 0.6	+ 2.5 Feb	+ 3.7	+ 2.6 Dec*
Switzerland	– 0.1	+ 0.9 Mar	+ 1.2	+ 1.3	– 3.0	+ 0.5 Mar	na	+ 0.2 1999
United States	+ 4.2	+ 2.9 Mar	+ 2.8	+ 2.2	+ 5.7	+ 3.1 Mar	+ 4.3	+ 4.3 Mar
Euro area	+ 1.6	+ 2.6 Feb	+ 2.0	+ 1.6	– 0.2	+ 4.4 Feb	+ 2.4	+ 2.4 Q4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 0.7	+ 2.9 Mar	na	na	– 7.6	+ 3.2 Mar	+ 3.0	+ 4.3 Q4*
Greece	– 2.7	+ 3.0 Mar	na	na	– 4.3	+ 4.8 Feb	na	na
Iceland	+ 2.3	+ 3.9 Mar	na	na	+10.1	+ 6.0 Mar	+11.0	+ 8.2 Feb
Ireland	+ 0.9	+ 5.4 Mar	na	na	– 1.5	+ 3.5 Feb	+ 4.7	+ 7.4 Q3*
Luxembourg	– 0.1	+ 2.9 Mar	na	na	+ 2.5	+ 4.2 Feb	+ 7.7	+ 8.4 Oct*
New Zealand	– 0.8	+ 3.1 Q1	na	na	+15.0	+10.2 Q4	+ 1.8	+ 1.6 Q4
Norway	+ 6.1	+ 3.7 Mar	na	na	na	– 0.1 Mar	+ 7.7	+ 4.3 Q4*
Portugal	+ 4.4	+ 5.1 Mar	na	na	– 9.5	+ 6.0 Feb	na	+ 1.6 Jan*

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate. ‡New series.

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MONEY AND INTEREST RATES

Apr 19th 2001
From The Economist print edition

In a surprise move between scheduled meetings, America's Federal Reserve cut the federal-funds rate by 50 basis points to 4.5%. It was the fourth cut this year and brought its target for interest rates to the lowest level for 6 1/2 years.

	Money supply*			Interest rates % p.a. (Apr 18th 2001)							
	% rise on year ago			over-	3-mth money market		banks	2-year	10-year gov't		corporate
	narrow	broad		night	latest	year ago	prime	gov't bonds	latest†	year ago	bonds
Australia	+11.3	+ 7.4	Feb	5.00	4.91	6.00	8.00	4.80	5.68	6.16	7.03
Britain	+ 8.4	+ 9.0	Feb	4.69	5.38	6.16	6.50	5.03	5.02	5.26	6.54
Canada	+13.6	+ 6.3	Feb	4.66	4.61	5.36	6.50	4.72	5.57	5.92	7.17
Denmark	– 0.2	– 5.2	Feb§	5.30	5.30	4.13	8.00	4.95	5.17	5.51	7.18
Japan	+ 5.0	+ 2.6	Mar	0.01	0.03	0.04	1.38	0.09	1.45	1.73	1.60
Sweden	+ 3.9	– 0.2	Feb	4.10	3.95	3.98	4.30	4.25	4.95	5.40	5.16§
Switzerland	– 2.9	+ 0.9	Feb	3.25	3.26	2.90	5.25	3.18	3.40	3.84	4.13
United States	– 0.2	+ 9.8	Mar	4.50	4.62	6.10	8.00	4.22	5.12	6.05	7.19
Euro area‡	+ 1.8	+ 4.7	Feb	5.75	4.77	3.93	5.50	4.47	4.88	5.18	5.78

†France 5.03, Germany 4.88, Italy 5.37. Benchmarks: Japan No.230 1.50, US 30-yr 5.65. ‡Germany for prime and bonds. §New series.

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4.Sources: Commerzbank, Den Danske, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, Warburg Dillon Read, WEFA Gp, Westpac, Thomson Financial Datastream.Rates cannot be construed as banks' offers.

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LABOUR TAXES

Apr 19th 2001
From The Economist print edition

Tax wedges measure the share of labour costs attributable to income taxes and social-security contributions less cash benefits. In the past three years, they have fallen in most OECD countries. The biggest declines have occurred in Ireland and Australia, where the wedge for a one-earner family with two children fell from 14.5% to 7.7%. The Czech Republic also trimmed its wedge substantially from 31.2% to 24.8%. However, Japan and South Korea have moved in the opposite direction as their governments have tried to spend their way out of economic crises. The tax wedge has risen in both countries by about a third.

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TRADE, EXCHANGE RATES AND BUDGETS

Apr 19th 2001
From The Economist print edition

America's trade deficit fell to $33.4 billion in February, slightly reducing the deficit for the latest 12 months. In the year to February, Canada's trade surplus rose to $39.3 billion. Italy's current-account deficit narrowed to $5.8 billion in the 12 months to January. The trade-weighted value of the dollar increased by 0.6%, and the yen's rose by 2.3% over the week.

	Trade balance*, $bn		Current account			Exchange rate		Currency units					Budget
	latest month	latest 12 months	$bn latest 12 mths	The Economist poll % of GDP, forecast 2001	2002	trade-weighted† Apr 18th	year ago	per $ Apr 18th	per $ year ago	per £	per euro	per ¥100	balance % of GDP 2000‡
Australia	+ 0.28 Feb	– 3.6	– 15.1 Q4	-3.0	-3.2	69.7	76.1	2.03	1.67	2.88	1.77	1.65	0.9
Austria	– 0.57 Jan§	– 4.6	– 5.0 Jan	-2.4	-1.9	100.0	99.9	15.8	14.4	22.4	13.8	12.9	-1.6
Belgium	+ 0.37 Jan§	+ 12.8	+ 11.6 Dec	4.0	4.0	98.5	98.6	46.3	42.1	65.7	40.3	37.7	-0.1
Britain	– 3.49 Jan	– 42.6	– 24.5 Q4	-2.0	-1.9	106.5	109.3	0.70	0.63	–	0.61	0.57	2.7
Canada	+ 3.86 Feb	+ 39.3	+ 12.7 Q4	1.1	0.9	77.0	79.7	1.57	1.46	2.22	1.36	1.28	2.5
Denmark	+ 0.42 Jan	+ 5.0	+ 3.6 Feb	1.4	1.4	101.2	100.4	8.57	7.78	12.2	7.46	6.98	2.7
France	+ 0.89 Feb	+ 1.2	+ 22.6 Jan	1.9	1.8	101.1	101.3	7.53	6.85	10.7	6.56	6.14	-1.4
Germany	+ 5.74 Feb§	+ 51.9	– 24.2 Feb	-1.3	-1.1	98.0	98.0	2.25	2.04	3.19	1.96	1.83	1.4
Italy	+ 0.97 Jan	+ 1.4	– 5.8 Jan	-0.3	nil	72.2	72.3	2,223	2,021	3,156	1,936	1,812	-0.1
Japan	+ 8.86 Feb§	+ 108.6	+ 112.1 Feb	2.2	2.2	138.9	156.4	123	106	174	107	–	-6.0
Netherlands	+ 1.49 Jan§	+ 15.2	+ 13.7 Q4	3.9	3.9	97.3	97.4	2.53	2.30	3.59	2.20	2.06	1.6
Spain	– 3.10 Jan	– 39.6	– 17.7 Dec	-2.9	-2.6	73.9	73.9	191	174	271	166	156	-0.3
Sweden	+ 0.98 Feb	+ 13.6	+ 5.1 Feb	2.1	2.1	77.0	84.3	10.36	8.68	14.7	9.03	8.45	3.4
Switzerland	+ 0.17 Feb§	– 0.8	+ 31.1 Q4	11.8	11.2	107.1	104.3	1.76	1.64	2.49	1.53	1.43	na
United States	– 33.35 Feb	– 453.9	– 434.9 Q4	-4.3	-4.1	120.5	108.5	–	–	1.42	0.87	0.82	2.3
Euro area	– 6.94 Jan§	– 9.3	– 25.4 Jan	-0.2	-0.1	77.6	78.8	1.15	1.04	1.63	–	0.94	0.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*												
Finland	+ 0.77 Feb§	+ 13.1	+ 9.6 Feb	na	na	77.5	76.4	6.59	6.32	9.35	5.74	5.37	4.0
Greece	– 1.80 Q3	– 7.2	– 7.8 Oct	na	na	57.2	58.0	378	357	536	329	308	-1.0
Iceland	– 0.01 Feb§	– 0.5	– 0.9 Q4	na	na	na	na	92.7	74.1	132	80.8	75.6	2.8
Ireland	+ 2.47 Dec	+ 25.9	+ 0.2 Q3	na	na	86.5	86.1	0.87	0.84	1.24	0.76	0.71	5.6
Luxembourg	– 0.18 Dec§	– 2.4	+ 1.6 Q4	na	na	98.5	98.6	44.7	42.1	63.4	38.9	36.4	na
New Zealand	+ 0.16 Feb§	– 0.5	– 2.7 Q4	na	na	77.5	86.3	2.47	2.00	3.50	2.15	2.01	0.5
Norway	+ 2.29 Feb	+ 26.2	+ 22.5 Jan	na	na	94.5	91.4	9.06	8.69	12.9	7.89	7.38	14.0
Portugal	– 1.32 Dec§	– 14.9	– 10.4 Jan	na	na	89.0	88.6	222	213	315	193	181	-1.5

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate. §Not seasonally adjusted.

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STOCKMARKETS

Apr 19th 2001
From The Economist print edition

On April 18th, the Dow Jones rose by 3.9% and the Nasdaq Composite surged by 8.1%. Both reached their highest levels for five weeks after the cut in American interest rates. The Nikkei 225 had already closed up 4.4% on the day at a three-week high.

Market indices	Apr 18th	2001 high	2001 low	% change on one week	% change on one year	% change on record high	Dec 31st 2000 in local currency	Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,219.5	3,312.1	3,094.3	+ 0.7	+ 5.8	– 3.3	+ 2.1	– 9.5
Austria (ATX)	1,208.5	1,219.5	1,052.2	+ 1.3	+ 7.5	– 30.4	+ 12.6	+ 4.4
Belgium (Bel 20)	2,875.8	3,030.4	2,591.6	– 0.5	– 0.2	– 21.9	– 4.9	– 11.8
Britain (FTSE 100)	5,890.2	6,334.5	5,314.8	+ 1.8	– 4.8	– 15.0	– 5.3	– 10.0
Canada (Toronto Composite)	8,131.2	9,348.4	7,415.5	+ 5.4	– 10.0	– 28.6	– 9.0	– 12.7
Denmark (Copenhagen SE)	879.3	1,002.1	818.3	+ 2.2	+ 5.8	– 15.4	– 3.0	– 10.0
France (SBF 250)	3,508.8	3,820.2	3,107.9	+ 2.5	– 9.8	– 20.1	– 7.0	– 13.7
Germany (Xetra DAX)	6,164.9	6,795.1	5,388.0	+ 3.6	– 14.6	– 23.6	– 4.2	– 11.1
Italy (BCI)	1,778.3	1,948.4	1,609.6	+ 1.3	– 5.3	– 18.5	– 7.2	– 13.9
Japan (Nikkei 225)	13,641.8	14,032.4	11,819.7	+ 3.5	– 28.5	– 64.9	– 1.0	– 7.9
(Topix)	1,320.4	1,337.6	1,162.0	+ 2.3	– 18.5	– 54.2	+ 2.9	– 4.3
Netherlands (EOE)	584.7	642.3	518.3	+ 1.4	– 10.6	– 16.7	– 8.3	– 14.9
Spain (Madrid SE)	935.9	963.9	818.6	+ 1.8	– 9.6	– 18.3	+ 6.3	– 1.4
Sweden (Affarsvarlden Gen)	242.8§	292.7§	217.2§	+ 2.8	– 30.4	– 39.3	– 12.5	– 20.3
Switzerland (Swiss Market)	7,338.5	8,135.4	6,574.0	+ 1.4	– 0.2	– 12.8	– 9.8	– 16.8
United States (DJIA)	10,615.8	10,983.6	9,389.5	+ 6.0	– 0.6	– 9.4	– 1.6	– 1.6
(S&P 500)	1,238.2	1,373.7	1,103.3	+ 6.2	– 13.3	– 18.9	– 6.2	– 6.2
(Nasdaq Comp)	2,079.4	2,859.2	1,638.8	+ 9.5	– 43.9	– 58.8	– 15.8	– 15.8
Europe (FTSE Eurotop 300) *	1,437.2	1,545.5	1,279.0	+ 1.9	– 8.9	– 15.7	– 6.3	– 13.0
Euro area (FTSE Ebloc 100) *	1,300.0	1,404.1	1,143.9	+ 2.5	– 8.3	– 16.2	– 6.6	– 13.4
World (MSCI) †	1,118.8	1,249.2	1,014.6	+ 3.7	– 17.9	– 23.1	na	– 9.3
World bond market (Salomon) ‡	427.5	447.8	428.4	+ 0.5	– 0.4	– 6.1	na	– 2.7

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms. §Rebased.

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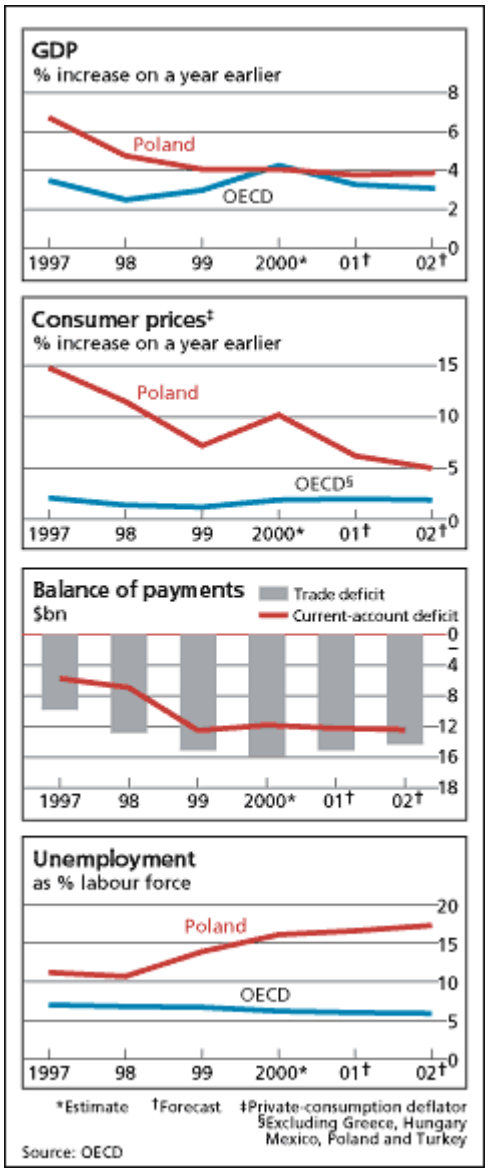
POLAND

Apr 19th 2001
From The Economist print edition

In a recent report, the OECD said that the Polish economy performed impressively in the second half of the 1990s, with GDP growth averaging 5 1/2% a year. By 1999, however, rising inflation and a deteriorating current-account deficit caused the central bank to raise interest rates. Now a slowdown that began towards the end of last year has prompted cuts in interest rates. The central bank will have to be cautious in easing monetary policy further, says the OECD, if inflation is to be cut to less than 4% by 2003, as planned. Fiscal policy should be tightened in order to rein in the current-account deficit and to prepare for public-sector investments that will be required when Poland joins the European Union. The OECD praises structural reforms, notably the introduction of a new pension system. However, it takes Poland to task over its labour-market policies. Wage indexation, the structure of the minimum wage, high income taxes and strong employment protection, together with a lack of policies to encourage people to look for work, have all helped to increase unemployment. The low rate of employment among school-leavers is especially worrying.



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FINANCIAL MARKETS

Apr 19th 2001
From The Economist print edition

Most Asian markets rose on April 18th in response to encouraging American economic data. Seoul gained 5.1% on the day, ending the week 6.4% higher. But Jakarta lost 3.0% on the week, weighed down by the weakening rupiah and political instability. South American markets surged after the cut in American interest rates.

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Apr 18th		Dec 31st 2000	
	Apr 18th	year ago	Apr 18th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.8	na	2,270.3	+ 1.8	+ 3.6	+ 3.6
Hong Kong	7.80	7.79	11.1	4.77	12,972.8	+ 2.1	– 14.1	– 14.1
India	46.9	43.6	66.5	8.16	3,438.8	+ 3.4	– 13.4	– 13.8
Indonesia	10,945	7,775	15,539	16.04	356.2	– 3.0	– 14.4	– 24.4
Malaysia	3.80	3.80	5.39	3.30	570.0	+ 0.4	– 16.1	– 16.1
Philippines	50.1	41.2	71.1	11.94	1,426.0	– 1.3	– 4.6	– 4.8
Singapore	1.80	1.70	2.56	2.25	1,606.0	– 0.6	– 16.7	– 19.8
South Korea	1,315	1,110	1,867	5.83	540.0	+ 6.4	+ 7.0	+ 2.9
Taiwan	32.9	30.5	46.7	4.65	5,508.6	+ 0.7	+ 16.1	+ 16.7
Thailand	45.3	37.9	64.3	2.75	297.3	+ 5.3	+ 10.5	+ 5.8
Argentina	1.00	1.00	1.42	13.54	467.2	+ 2.4	+ 12.0	+ 11.9
Brazil	2.18	1.77	3.10	15.85	15,035.0	+ 1.5	– 3.6	– 13.9
Chile	598	512	849	3.63*	4,942.2	+ 1.2	+ 1.5	– 2.7
Colombia	2,318	2,004	3,291	12.77	826.9	– 0.5	+ 16.0	+ 11.9
Mexico	9.17	9.45	13.0	15.06	6,183.7	+ 3.1	+ 9.4	+ 14.7
Peru	3.56	3.47	5.1	12.59	1,217.1	+ 0.4	+ 0.7	– 0.3
Venezuela	711	672	1,009	14.95	7,574.0	– 0.1	+ 11.5	+ 9.8
Egypt	3.88	3.44	5.51	9.11	5,974.0	– 5.0	– 22.0	– 21.8
Israel	4.17	4.05	5.92	5.23	397.6	+ 0.5	– 19.6	– 22.0
South Africa	8.16	6.63	11.6	10.67	8,759.6	+ 2.7	+ 5.2	– 2.4
Turkey	1,247,500	596,595	1,771,076	80.00	9,069.9	+ 4.8	– 3.9	– 48.4
Czech Republic	39.4	38.3	56.0	5.01	436.6	+ 2.0	– 8.8	– 13.0
Hungary	307	273	436	11.35	7,098.3	+ 2.8	– 9.6	– 16.8
Poland	4.03	4.26	5.72	17.24	15,416.1	+ 1.4	– 13.6	– 11.3
Russia	29.0	28.8	41.1	25.00	171.6†	+ 0.2	+ 21.0	+ 19.8

*Inflation adjusted. †In dollar terms.

Sources: National statistics offices, central banks and stock exchanges; Primark Datastream; EIU; Reuters; Warburg Dillon Read; J.P. Morgan; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Bank Ekspres; Deutsche Bank; *Russian Economic Trends*.

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ECONOMY

Apr 19th 2001
From The Economist print edition

China's economy grew by a faster-than-expected 8.1% in the year to the first quarter of 2001. However, the growth in industrial production fell back to 12.1% in the year to March. Consumer-price inflation in the 12 months to March fell in Malaysia, South Africa and Poland, but rose in Brazil and Israel. Argentina's current-account deficit shrank to $9.4 billion last year.

	% change on year earlier			Latest 12 months, $bn		Foreign reserves*, $bn	
	GDP	Industrial production	Consumer prices	Trade balance	Current account	Latest	Year ago
China	+ 8.1 Q1	+12.1 Mar	+ 1.6 Feb‡	+23.7 Mar	+15.7 1999	171.3 Jan	159.0
Hong Kong	+ 6.8 Q4	− 0.2 Q4	− 2.1 Feb	−11.7 Feb	+ 8.8 Q4	114.6 Mar	93.8
India	+ 6.0 Q2	+ 0.6 Feb	+ 3.0 Feb	− 6.7 Feb	− 5.4 Q4	39.5 Mar	35.7
Indonesia	+ 5.2 Q4	+ 4.5 Q4‡	+ 10.6 Mar	+27.4 Feb	+ 5.5 Q3	22.6 Dec	26.5
Malaysia	+ 6.5 Q4	+ 4.3 Feb	+ 1.5 Mar	+16.1 Feb	+ 9.7 Q3	28.5 Feb	33.2
Philippines	+ 3.6 Q4	− 2.4 Jan	+ 6.7 Mar	+ 7.2 Feb	+ 9.3 Dec	12.5 Jan	12.9
Singapore	+ 4.6 Q1	+13.3 Feb	+ 1.4 Feb	+ 3.7 Feb	+21.8 Q4	80.0 Jan	75.9
South Korea	+ 4.6 Q4	+ 8.6 Feb	+ 4.4 Mar	+14.1 Mar	+11.3 Feb	94.4 Mar	83.6
Taiwan	+ 4.1 Q4	+ 9.1 Feb	+ 0.4 Mar	+10.3 Mar	+ 9.6 Q4	110.1 Feb	113.6
Thailand	+ 3.1 Q4	+ 2.4 Feb	+ 1.4 Mar	+ 4.5 Feb	+ 8.1 Feb	32.5 Feb	31.2
Argentina	− 2.0 Q4	− 4.5 Mar	− 1.0 Mar	+ 1.5 Feb	− 9.4 Q4	25.4 Feb	24.7
Brazil	+ 4.4 Q4	+ 1.5 Feb	+ 6.3 Mar	− 1.3 Mar	−26.4 Feb	35.2 Jan	36.2
Chile	+ 4.5 Q4	− 0.2 Feb	+ 3.5 Mar	+ 1.3 Feb	− 1.0 Q4	14.5 Feb	14.0
Colombia	+ 2.1 Q4	+ 1.5 Feb	+ 7.8 Mar	+ 2.2 Jan	− 0.1 Q4	9.3 Mar	8.3
Mexico	+ 5.1 Q4	− 3.7 Feb	+ 7.2 Mar	− 8.7 Feb	−17.7 Q4	39.1 Feb	33.3
Peru	− 2.5 Feb	+ 0.2 Jan	+ 3.6 Mar	− 0.4 Feb	− 1.7 Q4	8.4 Jan	9.1
Venezuela	+ 5.6 Q4	na	+ 12.5 Mar	+ 6.6 Oct	+13.4 Q4	12.9 Feb	11.5
Egypt	+ 6.5 2000†	+ 9.4 2000†	+ 2.6 Jan	−10.4 Q4	− 0.8 Q4	13.1 Dec	14.5
Israel	+ 3.0 Q4	+10.7 Jan	+ 0.7 Mar	− 7.2 Mar	− 0.7 Q3	23.9 Mar	22.8
South Africa	+ 3.3 Q4	+ 1.6 Feb	+ 7.4 Mar	+ 3.4 Feb	− 0.5 Q4	6.2 Feb	6.4
Turkey	+ 8.3 Q4	− 5.2 Feb	+ 37.5 Mar	−27.1 Jan	−10.2 Jan	21.7 Feb	23.2
Czech Republic	+ 3.9 Q4	+ 6.5 Feb	+ 4.1 Mar	− 3.4 Feb	− 2.3 Q4	13.0 Feb	12.6
Hungary	+ 4.2 Q4	+18.5 Feb	+ 10.5 Mar	− 2.4 Feb	− 1.8 Feb	10.7 Mar	10.7
Poland	+ 2.4 Q4	− 0.1 Feb	+ 6.2 Mar	−10.7 Feb	− 9.4 Feb	26.6 Feb	24.5
Russia	+ 7.7 2000	+ 3.6 Mar	+ 23.8 Mar	+61.3 Jan	+46.4 Q4	24.6 Feb	9.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*						
Pakistan	+ 3.9 1999†	+ 6.8 Sep	+ 4.2 Mar	− 1.9 Jan	− 2.5 1999	1.1 Jan	1.6
Saudi Arabia	+ 0.4 1999	na	− 1.3 Dec	+24.9 1999	+ 0.4 1999	17.1 Jan	16.2

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Text refers only to the first 25 countries listed

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